



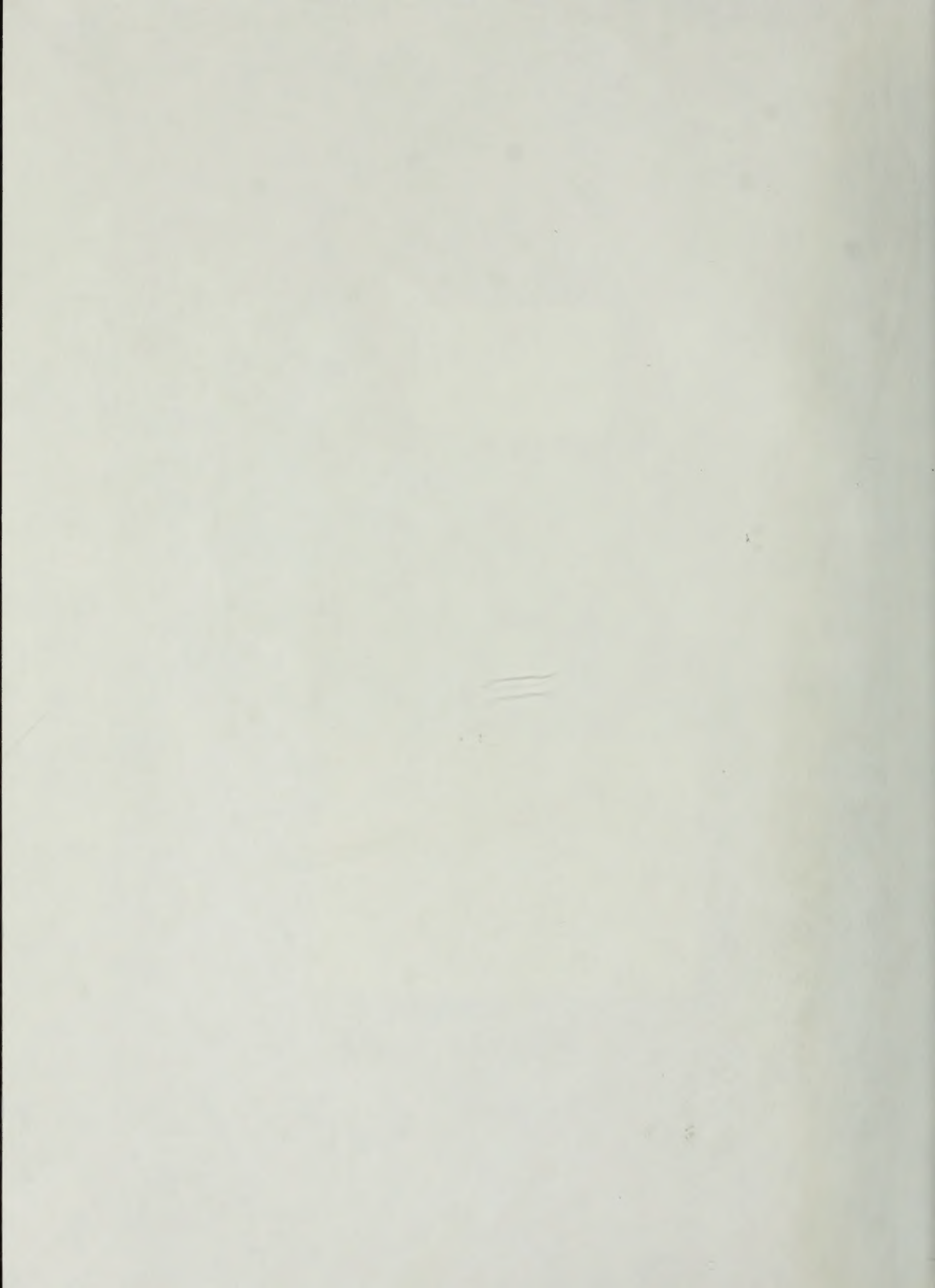
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October 3

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ARMS MERCHANTS**

**WHERE THE
NEW JOBS ARE
COMING FROM**

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PAR EXCELLENCE**

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OCTOBER 3, 1988

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

**THE RICHEST
ENTERTAINERS**

**ELVIS PRESLEY
DIED IN 1977.
GUESS HOW MUCH
HE WILL EARN
THIS YEAR?**



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Today, the most successful transactions
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Bankers Trust Company

Because today isn't yesterday.



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It is the famous Ritz tea, taken in the elegant Lounge amid palms and tapestries to the sound of gentle piano music.

It is the epitome of traditional hotel service. Old fashioned press-button service,



fresh flowers everywhere and a staff whose warmth and loyalty are the envy of Europe.

It is a place where, for many, 'La Belle Epoque' never ended. It is totally unique.

But above all, it is Trusthouse Forte.



Trusthouse Forte Hotels

The New 505



IT'LL HAVE YOU BELIEV

It's rough out there. A fact you're painfully reminded of every time you drive your car. Because while the stiffer suspensions in most of today's cars make them handle better, they also make them ride harder. Which means they're good on curves and bad on bumps.

In a Peugeot, however, it's a whole different world. Whether you choose the newly restyled 505 Turbo or STX V-6, you can snake around curves with the sure-footed precision of a world class performance sedan and enjoy in the process what *Motor Trend* magazine has called "perhaps the nicest all-around ride in the automotive world."

To achieve this state of engineering perfection, Peugeot has complemented a powerfully exceptionally smooth-running, overhead-cam, fuel-injected engine with a unique combination of the most technologically advanced handling features available.

But deserving of most of the credit for allowing this degree of control and comfort to successfully co-exist in a Peugeot, are its unique double-chamber shock absorbers. W



ING THE WORLD IS FLAT.

As many valves as ordinary shocks, they match their response to variations of road load, soaking up bumps, jolts and potholes with veritable aplomb. They are designed, and *patented* by Peugeot, which is why no other car in the world can offer you quite the same motoring experience.

And to ensure all this smoothness reaches that part of you that can appreciate it most, Peugeot has equipped the Turbo and the STX V-6 with seats that *Motor Trend* has called among the most comfortable in the world." They are filled with a special body-contouring foam, covered with a buttery-soft, hand-fitted leather (optional on the Turbo), and feature possible adjustments to afford you maximum lumbar and lateral support.

If this is your year for a European performance sedan, call 1-800-447-2882 for a dealer where you can test drive the Peugeot 505 STX V-6 or Turbo. After all, wasn't the road to success hard enough?

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PEUGEOT

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Seems like an eternity.

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The average retirement age is now 61.5, not 65.

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In each of these programs, employees are given the opportunity to plan for a financially secure retirement at economical group rates.

They can choose from contemporary insurance programs like Group Universal Life that not only provide benefits at retirement, but allow access to accumulating funds during working years as well.

There are also other options available.

Like savings and investment vehicles.

Family insurance coverages.

Supplemental disability plans.

All these employee-paid benefits supplement, and, in some cases, replace existing programs, help to reduce an employer's post-retirement costs.

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For more information about how we can help with the post-retirement cost problem, write CIGNA Company, Dept. R12, One Logan Sq., Phila., PA 19103.

Employee Marketing will benefit you and your employees now. And 22,463 days from now.

It's one more example of CIGNA's commitment to personalized service to business.



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For over 50 years, GE Capital has been providing American business with the capital it needs to grow on. And all that time, we've also been providing something else: ideas. A constant flow of thoughts, inspirations and innovative sug-

gestions for making maximum use of every last dollar. Today, our capital ideas are as much a part of our portfolio as the capital itself. In equipment leasing, acquisition funding, real estate and a dozen other areas, our people

never tire of putting money to work in new and better ways (a few of which are detailed below). If any of our capital ideas have started you thinking that we may be able to help your business, call GE Capital at our

special toll-free number: **800 243-2222**. Let us put our brains and our resources to work for you. **Capital Ideas Grow at GE Capital.**

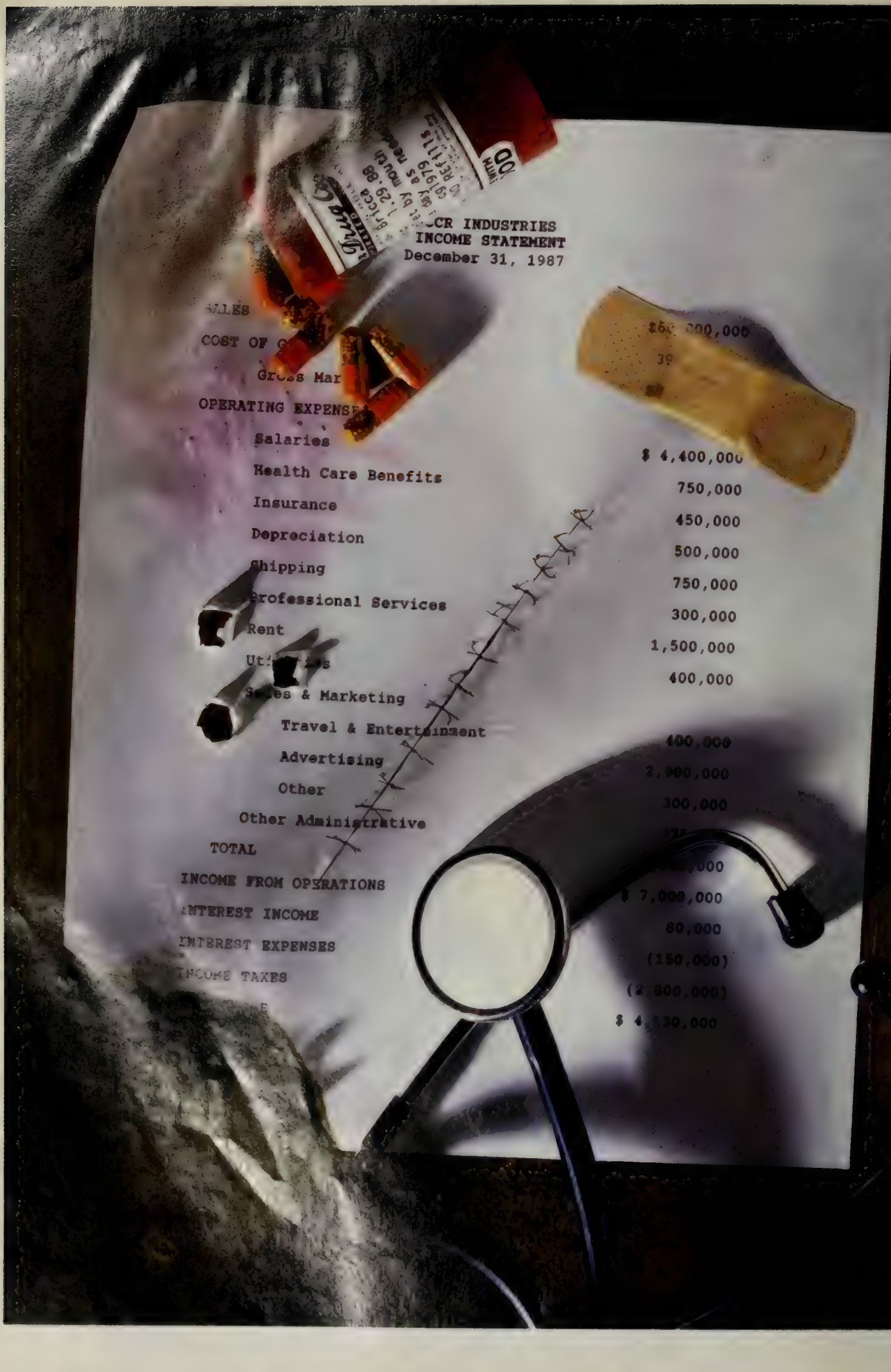
Sailing The Ocean Blue Without The Green.
You can't keep your head above water in the highly competitive shipping business by sinking your working capital into containers and ships. That's why GE Capital has financed over \$1 billion in ships and hundreds of thousands of containers for shipowners worldwide.

Cancelling An Insurance Fallacy.
"Considering all the litigation, legislation and assorted red tape, structuring a leveraged buyout within the insurance industry is a near-impossibility." Not quite. In 1987, GE Capital put together two of the first major insurance LBOs—for a total of nearly \$500 million.



Wheel Dealing, From Cradle To Grave.
For many auto dealers, GE Capital is a start-to-finish partner. We can finance the dealer's buildings and real estate, floor-plan his vehicle inventory, provide full leasing plans to retail customers—even liquidate trade-ins and end-of-lease vehicles through our network of auto auctions.

CR INDUSTRIES
INCOME STATEMENT
December 31, 1987



SALES	\$50,000,000
COST OF GOODS SOLD	38
Gross Margin	
OPERATING EXPENSES	
Salaries	\$ 4,400,000
Health Care Benefits	750,000
Insurance	450,000
Depreciation	500,000
Shipping	750,000
Professional Services	300,000
Rent	1,500,000
Utilities	400,000
Sales & Marketing	
Travel & Entertainment	100,000
Advertising	2,900,000
Other	300,000
Other Administrative	175,000
TOTAL	8,000,000
INCOME FROM OPERATIONS	\$ 7,000,000
INTEREST INCOME	80,000
INTEREST EXPENSES	(150,000)
INCOME TAXES	(2,800,000)
	\$ 4,130,000

MOST CEO'S ARE SUFFERING FROM A SERIOUS HEALTH PROBLEM.

There's an epidemic sweeping the country that is causing considerable pain for upper management.

It's called Rising Employee Health Benefits Costs.

This year alone, many commercial health insurers are slated to hike their premiums. This, after the many record increases of last year.

At NWNL Group, we're doing everything we can to help remedy the situation by working closely with our clients.

You see, we look at your company's insurance needs differently, so we find solutions others may not have seen before.

Our Health Information Consulting Services (HICS) is a prime example. We combine our

extensive national healthcare database with detailed analysis of your employees' treatment patterns and provider usage.

With this information we're able to provide you with a sophisticated management tool that targets cost control efforts for the greatest impact.

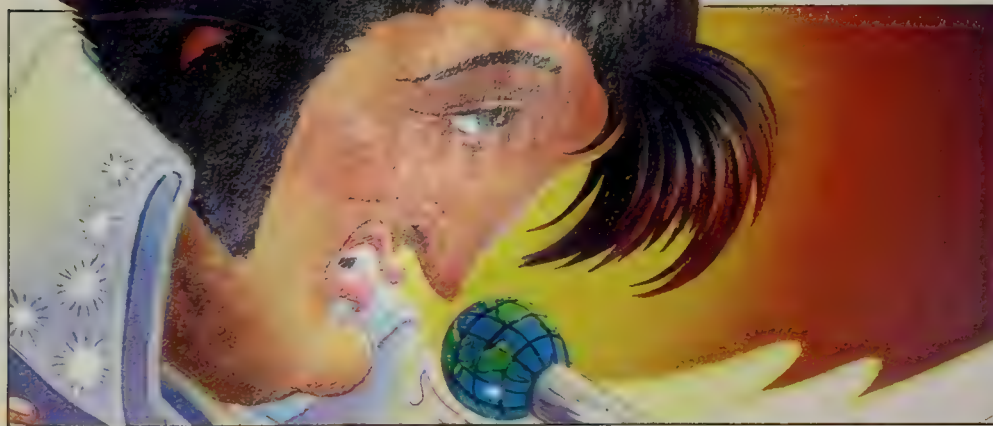
If you're feeling the effects of rising employee benefits costs, remember that NWNL Group can do a lot to make you feel better.

For our special booklet "10 Ways To Cut Benefits Costs," call or write Ginny Patrick, NWNL Group, Box 20, Minneapolis, MN 55440, (612) 372-5784.



NWNL GROUP

We look at things differently.



Cover illustration by Robert Grossman



34 Beachhead in North Carolina

OCTOBER 3, 1988
VOLUME 142
NUMBER 7

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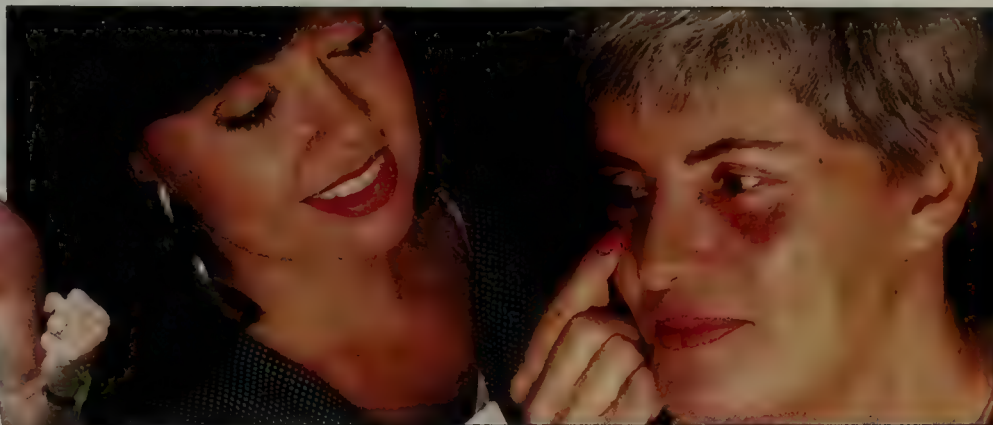
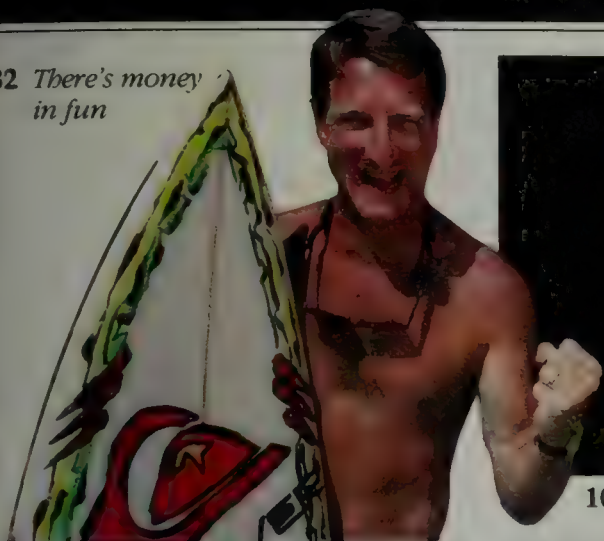
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PAID CIRCULATION OVER 745,000

FOUNDED 1917 BY B.C. FORBES (1880-1954)

But that was in another time, and besides the man is dead

Almost every student can—or once could—quote the lines “In the room the women come and go/ Talking of Michelangelo lo . . .” or “We are the hollow men/ We are the stuffed men. Leaning together/ Headpiece filled with straw. Alas!” by Thomas Stearns Eliot (1888-1965). What has T.S. Eliot got to do with the article on rich entertainers featured on this issue’s cover? Simply this: While her husband never made much more than a comfortable living from such great poems as “The Love Song of J. Alfred Prufrock” and plays like *Murder in the Cathedral*, Eliot’s widow has become quite wealthy thanks to his being a cat fancier. It happens that the long-running Broadway musical *Cats* is based on Eliot’s *Old Possum’s Book of Practical Cats*. In this, the centennial year of the Nobel laureate’s birth, and 23 years after his death, Eliot’s widow gets royalties amounting to over \$2 million a year from *Cats*. That is probably more than all the royalties earned by all of Eliot’s writings in his lifetime.

Welcome to the wonderful world of intellectual property, where living and dead alike profit from ownership, not of physical things, but of words and music and even, perhaps, a smile. What’s new is that thanks to recent judicial rulings and modern technology, intellectual property can be more valuable than physical property. Courts recently have ruled that Woody Allen’s neb- bish movie image and Bette Midler’s style of belting a song are as pro-



FORBES' Peter Newcomb

tectable as a poem or a song or a novel. Not all entertainers and not all artists are getting rich; for most life is a struggle. But the successful minority of writers and entertainers are today at least as affluent as successful stockbrokers or business people. That’s why FORBES is, for the second year running, compiling its list of the Top 40 entertainers: They are business—big business.

Peter Newcomb, who supervised the preparation of this year’s list and who wrote the cover story, “The new aristocracy,” says he had a ball doing it. Many of the entertainers and their representatives first pretended to be outraged at our probing into their deals and royalties and residuals but, when pressed, frequently showed a chuckling pleasure in their own financial good luck. Los Angeles-based entertainment lawyer Peter De- kom even quantified the risks for us. “How many businesses do you know,” he asked, “where you have to manufacture your entire product line before you know whether there is a buyer?” The entertainment business has become far too important to leave to the gossip columnists. Starts on page 114.

James W. Michaels
Editor

With Gel Exfoliant...
say goodbye to clogged pores
and ingrown hairs.

GEL
EXFOLIANT
Exfoliating
Gel scrub

LANCÔME



PROGRAMME
HOMME

LANCÔME
PARIS

Follow-Through



Robert Hurth/Tiffany Photographs

Riding for a fall?

May 2, 1988

Wayne Huizenga and John Metk

Videotape rental is one of the country's fastest-growing industries, and *FORBES* speculated in May that Blockbuster Entertainment Corp. could become one of its biggest players. Revenues had more than quadrupled to \$43.2 million last year from 1986, and earnings were on the rise as Blockbuster retail outlets multiplied at the rate of one every two days.

In the first half of 1988, net income more than tripled, to \$5.2 million, but the market has wildly overreacted. With the stock now trading at 21¼, a dizzy 37 times projected 1988 earnings, Wall Street is valuing the company at \$538 million, more than seven times most-recent 12-month sales—this for a company in an industry whose long-term future is in some doubt because of rapidly changing distribution technologies (*FORBES*, Sept. 19). In short, here is a stock way, way ahead of itself. One mistake, one weaker-than-expected earnings report and the Blockbuster shares could lay an egg.—Alyssa A. Lappen



J. A. Koresch III/The Clarion Ledger

Out! Out! Damned munis

Jan. 25, 1988

Robert Buchanan

FORBES reported in January that an obscure corner of the municipal bond market—indentures to finance nursing homes and retirement centers—was in trouble, with over \$1 billion in the bonds already in default. The most aggressive underwriter of these bonds was Jackson, Miss.' Buchanan & Co. It sold more than 50 defaulted issues, worth nearly \$400 million, on which many investors are unlikely to get their money back, *FORBES* warned. Now, with the National Association of Security Dealers and state regulators investigating the

firm, and Congress expected to hold hearings on frequent municipal bond defaults, Buchanan & Co. has closed its doors and has stopped doing business as a bond dealer. *Sic transit scammer.*—Matthew Schiffrin



Robert Burroughs

Trouble in defense

Dec. 28, 1987

Walter Zable

Cubic Corp. makes \$358 million a year from a grab bag of largely defense-related businesses. But Cubic, with problems in each of its lines, saw 1986 earnings fall to only \$1.1 million. Why didn't founder Walter Zable, who owns 32% of the firm, sell some subsidiaries, *FORBES* wondered. With the firm's breakup value estimated at \$30-plus per share—more than twice its market value—*FORBES* figured Zable was asleep.

While he dozed, problems worsened. Not only has Cubic had to pay \$7.25 million to settle a Defense Department suit for falsifying test results for military hardware, but now a shareholder is suing Cubic for allegedly bribing government officials to get another defense contract. The litigation means hefty legal expenses for a company that earned only about 2.2% net profits in fiscal 1987. Says Zable of all this: "There is no basis for the charges."—A.A.L.



Ken Arbus

Jeans giant

Mar. 10, 1986

Larry Pugh

Despite a shrinking U.S. jeans market, VF Corp. earned an amazing \$139 million on sales of \$1.5 billion in 1985, mostly from jeans. Chairman Lawrence Pugh's formula for success—fanatical attention to both quality and inventory control—only sounded easy, *FORBES* wrote. Pugh's toughness made it work. Another brilliant move was keeping debt so

low that VF could either go private and remain profitable or buy other companies to expand. Pugh did the latter, wisely, and we expected VF's sales and earnings to grow.

We were right. Few companies with mature markets have done so well. In late 1986 VF Corp. bought Blue Bell, which makes Wrangler jeans and Jantzen sportswear. Now the company controls 25% of the U.S. jeans market, with 6.6% net margins on sales of \$1.2 billion for the first half of 1988.

VF's debt is more than double what it was in 1986 but still accounts for a low 24% of the company's capital. Even so, VF returned an astonishing 20% on its shareholders' equity last year. And VF's earnings keep rising despite a mature market, thanks to Pugh's strict adherence to his tough-to-do business formula.—A.A.L.



Robert Wiles/Camera 5

Zimmer's bumper

Sept. 26, 1983

Paul Zimmer

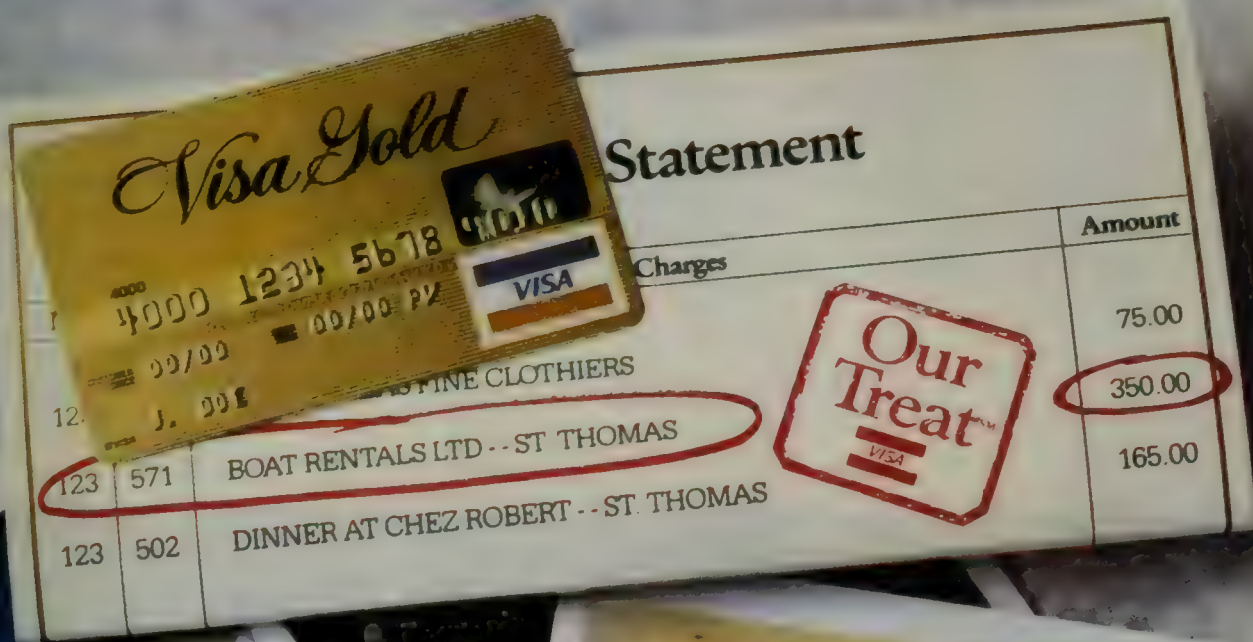
Zimmer Corp.'s luxury Golden Spirit cars, first rolled out in 1980, had fiberglass bodies that some said could shatter on impact, wheels that fell off without warning, and a bumpy, noisy ride. Nevertheless, the \$62,500 cars were selling at a moderate profit, and *FORBES* saw success in the company's future.

Oops. From a 1983 peak of \$163 million, sales fell steadily to a current level of less than \$25 million. Losses have mounted, and in 1987 exceeded \$9.9 million.

Now Zimmer Corp. is in the midst of a Chapter 11 reorganization, from which it may not emerge. Zimmer also once manufactured a line of mobile homes that accounted for 69% of sales and only 33% of net income. Now the company is selling its last mobile home plant. Also on the block: Zimmer Motor Cars, which makes the poor-quality Spirit.

Zimmer's stock, which peaked at 24¾ in 1983, was 1¾ when the company went into Chapter 11 in May and has since not been trading. So much for founder Paul Zimmer's 15% stake, which in 1983 was worth \$13 million.—A.A.L.

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prize in weekly drawings, \$75,000 and in Bonus drawings, \$100,000. Visa Gold debit cardholder Bonus Sweepstakes prize equals the previous month's total debit card purchases. For a complete set of rules, send a stamped, self-addressed envelope to Visa "Our Treat" Sweepstakes Rules, FAC Services Group, P.O. Box 7091, Bensenville, Illinois 60106-7091 (VT and WA residents may omit return postage). Sweepstakes open to all residents of the U.S. 18 years or older except employees and their families of Visa, its promotional agencies and Visa Gold issuers. Promotion ends December 31, 1988. © Visa U.S.A. Inc. 1988.

The New Audi 100/200 Series.

Audi is not immune to the seductive lure of luxury.

After all, the new 100/200 Series boasts a long list of indulgences. Like a six-speaker stereo system. Zebrano wood inlays. Private reading lamps and headphone jacks.

 Heated leather seats, available both front and rear. A climate control system with dual temperature sensors. And a power seat with four-position memory.

But Audi also believes all that is mere prologue to the ultimate luxury—peace of mind.

Which is why the new 100/200 Series is built with

one guiding vision: to give drivers the confidence of control.

From Audi's proven front-wheel drive, with its Centering Steering geometry. To the highly evolved permanent all-wheel drive Quattro. From the quiet reassurance of Anti-Lock Braking (ABS). To the precise and agile rack-and-pinion steering.

Everything has been designed and refined to help the driver take control of the unforeseen and the unexpected. Right down to the radical new owners' protection called the Audi Advantage.

For example, for the first three years or 50,000

If Peace Of Mind Audi Just Introduced T



he no-charge maintenance and limited warranty Audi Advantage* means all repairs, all scheduled maintenance, all routine oil changes are all paid for. The alignments, the brake pads, the wiper blades, you name it. Even normal wear-and-tear is covered, except for tires and soft trim, of course. In short, it pays for virtually everything except gasoline. (An owner still has responsibilities, after all; so there's the inevitable fine print about negligence and accidents.) The Audi Advantage also offers

24-Hour Roadside Assistance. A full decade of corrosion protection. And welcome security at trade-in time. Thanks to a Guaranteed Resale Index that certifies trade-in value.

It is, quite simply, a better way to own a car. And best of all, it comes with a better car to own.

Which makes us wonder if the new Audi 100/200 Series is truly a luxury. Or a necessity?

*Your dealer will proudly share details of Audi's new car and corrosion perforation limited warranties, and the other programs listed above. Roadside Assistance provided by the U.S.A.C., Motoring Division, Inc. Guaranteed Resale Index excludes leases. Certain restrictions apply. Not all features described are included on every model. For more information, call 1-800-FOR-AUDI. © 1988 Audi



Audi Today: Protection Without Precedent.

The Ultimate Luxury, Ultimate Luxury Car.



Merv swerves

In his new role as corporate wheeler-dealer, Merv Griffin is running into problems. The centimillionaire former talk-show host failed to sweet-talk the New Jersey Casino Commission into letting him put his newly gained ownership of Resorts International into a shell company and putting the shell into a trust until he gets his gaming license. Griffin needs the shell to preserve \$200 million in tax losses, so his people are pleading his case to the IRS. If the taxman says no, Merv's whole deal could come apart or at least run into serious delays.

What's more, a Drexel Burnham preliminary road show to sell the \$325 million of bonds Griffin needs to pay for Resorts was postponed. Why? Because of regulatory uncertainties, they say, but there are other problems. Holders of \$550 million in existing Resorts debt are howling, because they have no financial covenants to prevent the new bonds from becoming senior debt, thus diluting their own protection.

If it's any consolation, Griffin's old antagonist, Donald Trump, is having problems of his own. The pair settled their battle for Resorts, with Griffin getting the company and Trump taking the Taj Mahal hotel-casino in At-



Merv Griffin, corporate dealer
Will he yet advance to Boardwalk?

lantic City (FORBES, Aug. 22). Merrill Lynch is trying to raise \$675 million to enable Trump to finish construction and open the hotel-casino, but with interest rates higher and low-quality bonds in some disrepute, it might take a 15% coupon to move the bonds, which as FORBES pointed out put most of the risk on the bondholders and leaves most of the potential profit to Trump. The prospectus assumed a 13% rate. The difference would cost Trump nearly \$15 million a year in a deal that is already highly leveraged. —Eric Schmuckler

More trouble in Mervland

Griffin's longtime associate Michael Nigris, who was to head the Resorts operation, has for now withdrawn his application from the New Jersey Gaming Commission. Why? Nigris' ties to a controversial fellow named Ernest Barbella.

Barbella heads Morgan Capital Corp., an investment firm, but his past includes a consent decree with the USDA involving payment of improper fees to supermarket executives while he was the head of a meatpacking company.

What's this to do with Nigris? Until February, Nigris was a director of Morgan, Barbella's investment firm, which currently shares offices and a phone with the Griffin Co. on Third Avenue in New York. In January Ernest Barbella signed a consent decree with the Securities & Exchange Commission involving fraudulent misstatements in a stock underwriting.

Nigris was not named in the charges. "Mike has been disassociating all his business relations with Barbella since January," says his attorney, David Satz. But Merv Griffin is clearly disturbed. Says he: "I was surprised and troubled when I learned of Mr. Nigris' involvement with these companies. When I have all the facts I will make a judgment about his future involvement with my companies." —Lisa Gubernick

And now, a vulture fund

Many closed-end funds coming to market recently have been pretty bad, but the most recent entry may beat all. Welcome now the USF&G Pacholder Fund, which gives retail investors the golden opportunity of investing in dross: companies in, or close to, bankruptcy.



Laura Corne

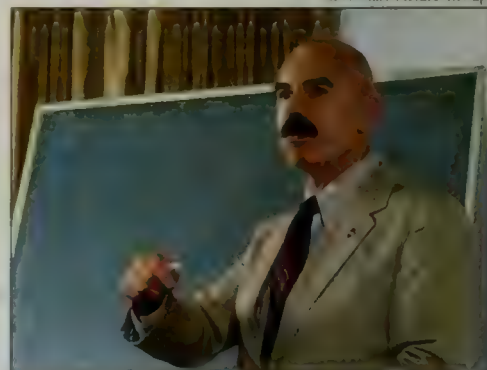
Its investment adviser, Pacholder Associates of Cincinnati, is a five-year-old money management firm with \$1.5 billion under management that's co-owned by insurance giant USF&G. In its short life, Pacholder has mostly managed junk bond portfolios. But picking morsels out of carion is a risky business, obviously, and investors ought to be able to see a record as some sort of indication of the fund manager's ability. No such luck. Says the prospectus: "The adviser has experience in investing in high-yield corporate securities, but has had limited experience investing in Portfolio securities," the kind it will be investing in now.

Inexperience aside, this is a field that has been attracting more and more investors and the pickings are a lot slimmer than they used to be. The fund wants to raise \$60 million. It may get the money. With brokers hard up for commissions, the offering will be sure to get the hard sell. However, if we were the customers we'd put our checkbooks away and tell the salespeople to get lost.

Liddygate?

G. Gordon Liddy of Watergate fame is going public—with a stock, that is. Last month Liddy merged his surveillance and antiterrorism consulting firm with Castleton Investors Corp., a shell company whose stock trades in the pink sheets for around 75 cents a share. Castleton wants to raise money for Liddy's operation by selling new stock. Liddy himself is planning to

Steve Starr Picture Group



Entrepreneur G. Gordon Liddy
Are the contracts for real?

ake his show on the road soon to pitch the stock and talk about potential deals. Such as a \$20 million contract with an unnamed Third World country, "to train its border patrol," and a \$6 million surveillance contract with an unnamed U.S. city. This is big tuff considering that Liddy's company did maybe \$2 million or so in sales last year.

Are Liddy's contracts for real? The folks who are organizing his stock-selling trip will say only that Liddy's mystery border patrol is for a country bordering on Nicaragua. Doesn't strike us as a stock that we'd like to own.—Peter D. Slatin

Skins game

ack Kent Cooke, owner of the Washington Redskins, has been negotiating with District of Columbia authorities for a new stadium, but last month Cooke abruptly announced plans to put up his own structure, spending up to \$150 million. All the city must do is lease him the land and pay for access roads and parking. Cost to the city: \$75 million. What if the city balks at the cost? Cooke hints he may take his 'Skins to the 'burbs.

The city proposed its own \$230 million stadium, but Cooke's not interested. Why not? He could net an extra \$20 million a season if he builds his own stadium, mostly from the lucrative sky-boxes he has in mind. And remember, Cooke, a near billionaire who also owns New York's Chrysler Building, the Los Angeles *Daily News* and some cable systems, is used to getting his own way.—E.S.

Poppa bails out

For the past three years Ryal Poppa has been the rehab man at Storage Technology. Once a highflier, the disk storage company fizzled in 1984, when it filed Chapter 11 proceedings. Poppa led the company out of bankruptcy last year and has begun to eke out some earnings for shareholders. The post-bankruptcy restructuring led to loads of equity dilution, and the stock, which traded as high as 40 in 1981, languishes around 2.

Folks who are bullish on the stock got something of a surprise recently when they learned that, during the summer, Poppa sold more than half his Storage stock—300,000 shares—at about \$2. (He owns options on additional shares, which he cannot yet exercise.) A Storage spokesman says that Poppa's stock sales are of little concern to the company. Shareholders might feel differently. If he doesn't want to own the stock at \$2, how can they expect it go higher?



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Readers Say

Risky business

SIR: FORBES has the right to be cynical about the European Community plan to complete its single market by 1992 ("An impossible dream," July 25), but you risk doing a serious disservice to your country should the article influence U.S. industrial leaders not to do anything to prepare their corporations for what is happening in Europe.

—Stanley Crossick
Solicitor,
C&L Belmont
Brussels, Belgium

Insider lending

SIR: Your story "Know thy borrower" (Sept. 5) focused largely on the premise that we were making excessive amounts of loans to directors. Citytrust's loans to directors are among our strongest and highest quality credits, although they account for less than 1% of our total assets. In fact, we do not have a customer who is more creditworthy than our director Ernest C. Trefz, who was the apparent target of your story.

Mr. Trefz is a highly successful entrepreneur who is very strong financially and is one of our most desirable customers. By borrowing from Citytrust, he is *not* taking advantage of his position as a director and major shareholder.

—George F. Taylor
Chief Executive Officer,
Citytrust
Bridgeport, Conn.

Bad reputation

SIR: "Broker blues" (Sept. 5) refers to my firm as "second-rate." I would not want to jeopardize your magazine's reputation with my second-rate subscription. Cancel my subscription effective immediately.

—Lucinda V. Fairfield
Vice President,
Boettcher & Co.
Albuquerque, N.M.

SIR: While none of us is happy about the performance of our brokerage operations in the wake of the market crash, it is absolutely amazing that you could call our firms "second-rate"; many industry observers believe that they are the leading regional

firms in their territories.

Nearly all the businesses we are in at Kemper are cyclical, so if you focus on our segments that are in a downswing, you can always find some reason to hang crepe. Our job is to manage our way through cycles for long-term growth. We have a pretty good track record at that, as is evidenced by Kemper Corp.'s average annual 16% earnings growth over the last decade.

—Thomas R. Anderson
Chief Executive Officer,
Kemper Financial Cos., Inc.
Chicago, Ill.

McMisinformation

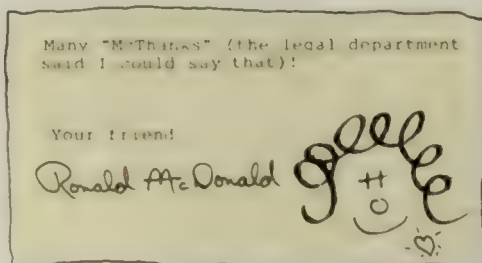
SIR: Two big corporations arguing over the right to create "McWords" has its comic aspects (*Fact and Comment*, Aug. 22), but it is a serious issue when one company, because of its size, claims control over not only the words it has created, but any words that begin with a certain sound.

It is irresponsible for FORBES to publish misinformation from Robert C. Goizueta, CEO of the Coca-Cola Co., incorrectly stating, "McDonald's won its case." In fact, the Federal Court in Baltimore will not render its decision before Sept. 21, 1988. McSloppy reporting, I'd say.

—Robert C. Hazard Jr.
Chief Executive Officer,
Quality International
Silver Spring, Md.

SIR: I liked your editorial a lot. Do you think we could just submit it to the judge and stop paying all those lawyers all of that money?

—Ronald McDonald



SIR: In 1971 every single major budget chain used a reference to Scotland. Scottish Inns, Econo Travel, Days Inns all felt they needed a reference to the thriftiness of Scottish people. I suppose that means to say that Scottish thriftiness is the only acceptable way of being cheap in America. McSleep merely seeks to reinforce that highly acceptable trait. It's a darn

shame to see the "capitalist tool" become the "establishment fool."

—W. Kindred Powell Jr.

President,
Enterprise Financial Consulting, Inc.
Atlanta, Ga.

Famous for her quips

SIR: Having read "Never in front" (*Other Comments*, Aug. 8), about Pamela Murdock and her trip in the Rolls Royce, I was reminded of the perfectly true story about T.S. Tailer's daughter Fern. Fern was divorced from David Gimbel and had received their Rolls Royce in the separation. Fern drove her Rolls to the supermarket. A young lady—very nouveau riche—had also driven her Rolls to the same supermarket, and parked her car next to Fern's, determined to get acquainted. When Fern appeared, the young lady rushed to ask, "How do you like your Rolls?" Fern, famous for her quips, gazed down from her 6-foot height and answered, "With butter."

—James Stewart
New York, N.Y.

Money well spent

SIR: As the largest contributing nation, the U.S. is in a position unmatched by other member nations to influence the World Bank's policies in a manner consistent with U.S. economic and trade interests.

As you noted in the editorial (*Fact and Comment*, Aug. 8), support for the World Bank GCI makes good business sense. In fiscal year 1987 alone, U.S. businesses supplied \$1.6 billion in goods and services to World Bank-financed projects. This is more than the combined total of all U.S. paid-in contributions to the Bank since its founding in 1946.

—M. Peter McPherson
Acting Secretary,
Department of the Treasury
Washington, D.C.

Active margination

SIR: I take exception to your comments about "accountants' unimagination sharp-pencil wandering" (*Fact and Comment*, Aug. 8). It is the hyperactive imagination of some accountants that make the balance sheet whiz, the income statement sizzle and the legal eagles pray and prey.

—G. Robert Beck, C.P.A.
LaGrange, Ga.



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Our commitment and experience are respected throughout the world. Chemical Bank is ranked number one and two worldwide in forex forecasting and foreign exchange trading by the *Euromoney Corporate Finance* survey of corporate treasurers. And we're a major force among banks the world over in providing products that help protect our customers from

the adverse impact of interest rate fluctuations.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

WILL THE JUDGE ALSO PRESIDE OVER EASTERN AIR LINES' BANKRUPTCY?

A federal judge okayed Eastern's slash of many of its moneylosing flights and related operations but refused the carrier permission to lay off 4,000 involved employees.

Incredible—unless the judge is going to tell Eastern

where to find the payroll. If such rulings bankrupt the carrier—this one's been reversed for the moment—can't Eastern and its stockholders sue the federal judge or his employers—us?

THIS TIME IT'S THE BASS WHO'S LANDING THE BIG FISH

Robert, that is.

OPPONENTS OF PLANT CLOSING NOTICES DO HAVE HEARTS

but they also have heads.

And as heads of companies that want to stay alive and to grow, they know what's behind the new legal requirement for 60 days' public notice of plans to close a plant. The aim isn't simply fairness to workers, isn't simply to give them 60 days to absorb and adjust.

The real purpose is to give mayors and governors and

unions and all others involved time to organize, to put heat on to prevent the closure. And barring that, to try and extract some form of costly quid pro quo.

Governor Dukakis made the point when campaigning in Erie, Penn.: "When 1,000 steel jobs disappear in Erie, something is wrong." In other words, plants and people should be locked in to the status quo. Which is exactly

CAP WEINBERGER TO BECOME FOURTH FORBES PUBLISHER

During the 71 years that have passed since my father founded FORBES Magazine in 1917, we have had three publishers. Dad held that title (among others) until his death in 1954. At that time I became Editor and Publisher. Twenty-two years ago, we reached out for a publisher, wooing Jim Dunn, then director of advertising at *Life*, to join FORBES Magazine. FORBES' growth in those years has been extraordinary.

Jim and I used to joke that we would not be leaving our jobs here until we were carried out feet first. But a little while ago Jim (68) told us he had changed his mind and decided to go out on his own feet and spend more time with his wonderful wife and great family.

So my sons and I gave much thought to a successor. It happened that I was going to be with Cap at a dinner a couple of days after our Think Tank session, and there was unanimous enthusiasm for sounding him out. Who else has had such a broad range of responsibility and experience in both the public and private sectors?

My conversation with Cap that evening was delightful. Our proposal struck a happy nerve. It turned out that

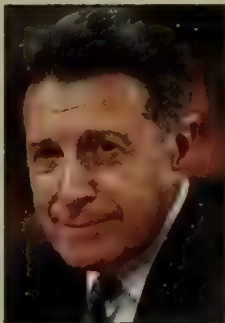
he regards journalism and publishing as his first love, despite a Harvard Law School degree. Graduated Phi Beta Kappa and Magna Cum Laude from Harvard, the longtime former Secretary of Defense had been undergraduate president of the university's famed daily, *The Harvard Crimson*. He had been a syndicated columnist for a chain of weeklies.

Cap will be doing an editorial commentary in every issue of FORBES, immediately following Fact and Comment I and II, in addition to the manifold other responsibilities that go with the post of publisher.

He brings to our councils years of consequential experience, having served as Budget Director under Nixon, Secretary of Health, Education and Welfare under both Nixon and Ford, and in business as a key top executive with the Bechtel Group, before he began his seven years' overseeing the Defense Department's vastest peacetime growth in U.S. history.

We are really happy to have Casper Weinberger aboard. He'll add an encompassing dimension.

And he is genuinely enthusiastic about becoming active again in his first love—journalism and publishing.



ARND BRONKHORST

why for so many years Britain's outmoded steel plants could not be closed, swollen payrolls reduced. The result was a British steel industry that almost choked to death on its own totally uncompetitive prices, both in the world and at home.

A number of countries in Europe have so many costly legal obstacles to closing any company operations that a major management objective is to avoid opening new ones if there's any alternative.

When the Common Market becomes a common one 40 months from now, those countries that thus immobilized their producers will have to unfetter them before nimbler

competitors overrun them in the marketplace. Spain's Prime Minister Felipe Gonzalez puts it clearly: He prefers to subsidize a new technology company and pay unemployment benefits rather than prop up an industry that has no demand.

For the U.S. to enact a law about fair and reasonable severance pay is one thing. But setting up, by law, a situation that hobbles, cripples the ability of companies to change and move, to close the obsolete, to move into new areas and products is a whole other thing.

The ability to move and to change—mobility—is at the very heart of our competitive free enterprise system.

THE AMERICA'S CUP RACE RESULTS SERVE THE KIWIS RIGHT

It was the craziest Cup race ever.

Our New Zealand friends tried to pull a fast one when, under an old Rules' technicality, they suddenly came up

with a surprise challenge, using a huge 132-foot sloop, manned by a crew of 40, instead of the 12-meter size that has prevailed for the last third of a century.

When the courts upheld their legal right to bust these gentleman's-agreement perimeters, spunky, sparky San Diego turned 'em on their ear

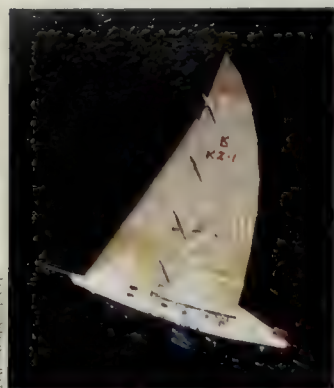
by using the same rule evoked by the Down Unders to defend with a swift-in-the-wind 60-foot catamaran.

This Laurel-and-Hardy match-up had a David-and-Goliath ending. Poetic justice.

Now, the gentleman's Cup challenge agreements should again rule these sporting waves.

* * *

In the same line of thought and hope, may we soon see the last of Cup races that feature spinnakers ablaze with advertising.



132-foot Goliath



60-foot David

"ONCE A MARINE, ALWAYS . . ."

Every service has its pride but none more so than the Marine Corps. Traditionally it's served as our nation's military cutting edge. In times of strained peace, marines are sent to be America's "presence."

Not so long ago the Corps got splattered with some adverse publicity. There were reports (they turned out to be considerably overblown) about a couple of Marines in Moscow being seduced by full-blown Red versions of Mata Hari into exposing U.S. security matters.

Such security aberrations among Marines really hit the fan because they are so rare.

A recent, starkly brilliant piece in *TV Guide* reminds us anew what a vital part combat Marines play in keeping America "the land of the free, and the home of the brave." Writes every journalist's favorite columnist-editor-commentator, Jim Brady, recollecting his days on *The Killing Fields of Korea*:

"One night that first week the Koreans hit us with maybe 400 rounds of mortar and artillery in 15 minutes and then, following close behind the barrage, came up at us through the wire. We killed most of them, including one who was trying to stuff a grenade down the stovepipe of a bunker. At dawn three or four of them were hanging on the barbed wire.

I never realized how waxy a dead man's face looks. . . .

"A trade-school man joined the battalion, an Annapolis graduate. That was something classy to brag about, our very own Annapolis man. He was killed the third or fourth day by a mortar. Four years at Annapolis and he didn't live out a week. I never even got to meet him.

"When we came down off the hill that time at the end of February, they burned our clothes.

"On Memorial Day we went up a hill called Yoke. Forty-eight of us went; 32 were hit. The Chinese were in trenches on top and they just rolled grenades down on us and we got caught in the wire and the mines.

"We called in artillery and it came over, just lovely hitting 30 or 40 yards up the hill above where we lay, hitting the Chinese. That was the first time I realized you could actually see 105-mm shells in the air, small and black and swift. I lay with my face in the dirt, wondering about short rounds, scared and feeling naked. . . .

"The war would continue another year. We suffered more than 157,000 casualties, 54,000 of them deaths. That was just the Americans. No one ever compiled a total.

"In August the Marine Corps notified me my footlocker had been shipped back and I could pick it up at Grand

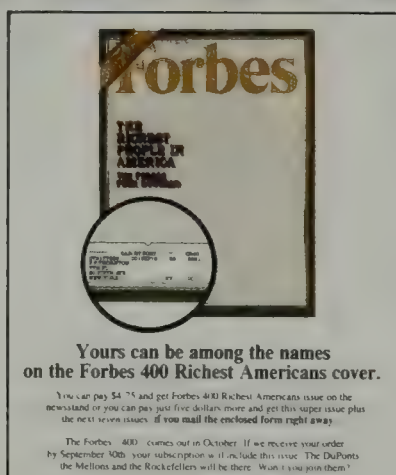
Central station. My brother, a college boy, drove over with me to get it. It was stored in the depot cellar, where they hold lost baggage and such. There, along with my footlock-

er, the coffins were stacked, each with its American flag neatly lashed on.

"I had come home. And so had they."

YOUR NAME CAN BE ON THE COVER OF THE FORBES 400 RICHEST

When we were working on copy heralding the forthcoming Oct. 24 annual FORBES listing and bio-ing of America's Four Hundred Richest, we agreed to continue the traditional cover that carries all their names. In that connection, I recalled chuckles provided by one subscriber who wrote what fun he had with friends by proclaiming that his name was on the FORBES Four



Hundred cover. After accepting a few bets, he proceeded to show them his address label smack on the front of that famed annual.

It occurred to me that perhaps it would be a fun gimmick to lead off a FORBES subscription offer with the declaration that "Yours can be among the names on the FORBES 400 Richest Americans cover."

Do you suppose this hook will work?

A COUPLE OF CHUCKLES THAT PRECEDED THE CHOKE HOLDS

Broadway boffo humorist Jackie Mason on Mike Dukakis: "I never met him. Then again, I wouldn't remember if I did. He doesn't make that strong of an impression. He

looks like he passed away and didn't tell anyone about it."

Jesse Jackson on George Bush: "Sure, Bush has met a lot of foreign leaders, but a substantial number were dead."

AMBITION IS BEST

not naked.

SELF-SYMPATHY

destroys one's self.

BOOKS



● **America: A Rediscovery**—by Lance Morrow (Henry Holt & Co., \$35). Lance Morrow is one of the most lucidly intelligent essayists in the country. He's a real jewel in *Time's* tiara. This colorfully splendiferous volume provides an evocative/provocative depiction of the diversity that makes

great and matchless beauty of less intellectual acquirements. . . . I advise everybody who has weak hair to avoid wearing nightcaps. . . . You may ask [a lady] if she is always particular to shut her eyes on retiring to bed? She will ask why? And you will answer, Because if you do not, I fear that the brightness of your eyes will burn holes in the blanket, or set the house afire! This kind of compliment is of the most delicate nature, and will be certain to impress the lady, especially if she is a person of sense, with the sincerity and purity of your intentions.

America. The 170 full-color photographs prove that Morrow is also a picture picker par excellence.

● **The Arts of Beauty or Secrets of a Lady's Toilet with Hints to Gentlemen on the Art of Fascinating**—by Madame Lola Montez, Countess of Landsfeld (Ecco Press, \$4.95). A titillating treasure trove of titivating tips from one who, 150 years ago, danced her way into the hearts and beds of those days' Best.



Excerpts: When Aristotle was asked why everybody was so fond of beauty, he replied, "It is the question of a blind man." Socrates described it as "a short-lived tyranny." . . . Let not man call beauty vanity until he becomes himself so morally purified and intellectually elevated that he would prefer the society of an ugly woman of genius to that of a

● **Paris by Night**—by Brassai (Pantheon Books, \$39.95). Famed for his grainy photographs in *The Secret Paris of the 30's*, Brassai's recently reprinted companion volume is nothing like as evocative or truly as depictive as the words in the book's foreword by Paul Morand. A half-century after his lights flashed, most of these pictures appear stilted, trite.



Excerpt: Foreword: Paris can be uncannier at night than any "haunted woodland," more alarming than the underworlds of London, Chicago or Berlin. "In all great cities there are zones which reveal their true character only after dusk. By day they wear a mask, assume a look of good-fellowship that hoodwinks even the astute. When the nightmists rise, such places wake to life that is a parody of death."



THE MERCEDES-BENZ S-CLASS: FEW CARS HAVE THE SAME PRIORITIES. AND NONE PLACES SO MANY SO HIGH.

A thousand names have briefly flashed across the automotive cosmos. The name of Mercedes-Benz has been shining brightly for slightly more than one hundred and two years.

What has created the timeproof lustre of Mercedes-Benz is the engineering credo behind it: the best automobile is the *complete* automobile—so pursue balance above all. Shun extremes. And place equal priority on every measurable facet of automotive excellence. The sedans of the Mercedes-Benz S-Class exemplify this credo.

Each is a big, spacious, limousine-quiet sedan capable of serving as a mobile boardroom. Each is simultaneously a big, quick, robust sedan capable of shrinking 500 miles of European autoroute to a routine four-hour run.

Each S-Class sedan balances plush riding ease with roadholding tenacity. Breathtaking acceleration with powerful, stable, ABS-augmented braking. And rigid structural solidity with burnished running smoothness.

The priorities of highly innovative technology never override the priority of high reliability. From the anti-corrosion wax injected

deep into its body cavities, to as much as 34 pounds of undercoating, to a robotically precise

five-step painting process, every S-Class sedan is built to endure. In part by being built to a quality standard that prompted one journal to ask, "How is it that Benzes fit together better than anything else in the world?"

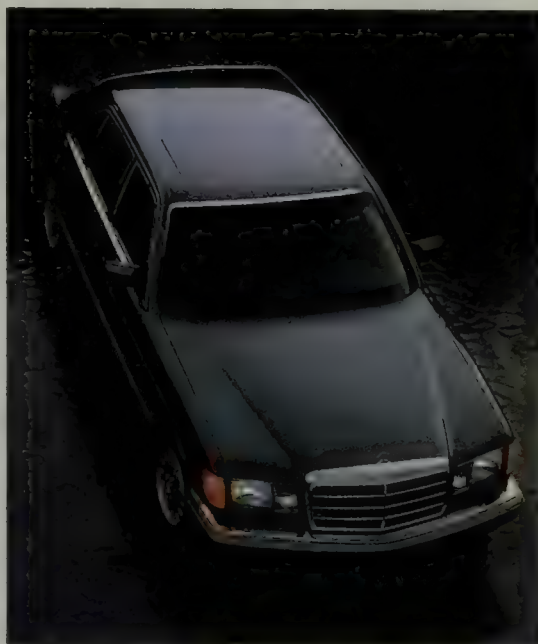
And balancing these basic automotive aims, a basic human aim: the well-being of the occupants. No

S-Class engineering priority exceeds the priority of safety. For example, the Supplemental Restraint System with its driver's-side air bag was pioneered in America in the sedans of the Mercedes-Benz S-Class.

You can choose from four S-Class sedans: the 560SEL and 420SEL V-8s, and the 300SEL and new 300SE six-cylinder models. If your key priority is excellence in every way automotive excellence can be measured, call or visit your authorized Mercedes-Benz dealer today. They will be pleased to arrange an S-Class test drive.



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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

It Costs More

House and Senate records disclosed that the cost of lobbying had climbed in 1987 to \$63.6 million. The biggest spender (\$2.9 million) was the National Committee to Preserve Social Security and Medicare, which has frequently intimidated the elderly into donating even when no one was attacking their benefits. But what was second, at \$2.56 million? Common Cause, the citizens' lobby that claims other interest groups corrupt Congress.

—Time

Not So Expert

"Video won't be able to hold onto any market it captures after six months. People will soon get tired of staring at a plywood box every night."

—Darryl F. Zanuck, head of 20th Century-Fox Studios, c. 1946, *The Experts Speak*, by C. Cerf and V. Navasky

"Cap" Comments

The consensus at business magazines was that Malcolm Forbes had pulled off a spectacular business and public relations coup with the appointment of former Defense Secretary Caspar Weinberger as publisher of FORBES magazine.

A big part of a magazine publisher's job is bringing in the advertising that brings in the bacon, and his fellow publishers agree that Weinberger should keep FORBES well fed—and the competition on the prowl.

"It's a stroke of genius on Mal-

colm's part," said Clay Felker, editor of *Manhattan, inc.* "If they don't take advertising he will send in an air strike—he'll bomb them!"

"It certainly fits the FORBES role of the high-profile access to the top," said Douglas McIntyre, publisher of *Financial World*.

Most welcomed Weinberger with open arms. "We are delighted that a man of this caliber has chosen to join the publishing fraternity," said Jack Patten, publisher of McGraw-Hill's *Business Week*.

Would another magazine make a similar move? Anything is possible at *Manhattan, inc.* Said Felker: "If Ronald Reagan wants a job here we can make things very attractive for him."

—New York Post

"If he does for FORBES what he did at the Pentagon, Malcolm will have to sell his yacht," says Theodore Levitt, editor of the *Harvard Business Review*.

Jokes were flying over at rival *Fortune* magazine about Cap Weinberger's new job as publisher of FORBES.

A sample: Donald Trump just bought a yacht bigger than Malcolm's. Guess Forbes figures Weinberger can get him a great deal on a nuclear carrier.

After years of dealing with a high-tech navy and supersonic aircraft, Cap is probably happy settling down. Just a simple yacht—and a balloon.

—USA Today

Much of [Weinberger's] time will be



"Jonah! When did you get out?"

DRAWING BY DANA FRAUDON, © 1988 THE NEW YORKER MAGAZINE, INC.

devoted to writing a column for the magazine, evaluating the events of the day.

"The kind of advice that he used to receive, he will now be giving," Forbes said.

—New York Daily News

Singer in Space?

CAPE CANAVERAL, FLA.: Singer John Denver, who has sought unsuccessfully to be a passenger on the U.S. space shuttle, has asked the Soviet Union for a ride aboard its Mir space station.

"The Soviets," reported *Aviation Week & Space Technology*, "responded with two conditions. They told Denver they'd charge him \$10 million for the ride and that he had to get permission from the U.S. government."

"The State Department took its customary cautious approach, advising Denver it was taking 'no position' on the matter—effectively putting it back into the hands of the Soviets."

—Associated Press

**Always do sober what
you said you'd do drunk:
That will teach you
to keep your mouth shut.**

—Ernest Hemingway

Keep It Secret

The Democrats are campaigning on "Me Too" Reaganism, with Dukakis planning to be closer to President Reagan's foreign policy than Bush—easily the most preposterous boast since Hart said he had nothing to hide and invited reporters to follow him day or night. Whether Dukakis can keep his affair with classic Democratic liberalism secret is the question that will determine the outcome of this campaign.

—John McLaughlin, *New York Times*

Forms

My wife was nearly apoplectic on a trip to India when I stated clearly that my "Reason for Visit" was "To overthrow Government." I confess that even I was a bit shaky when the large Sikh at Immigration peered at the card over his netted beard, but he was only interested in whether the number on the Disembarkation Card tallied with that on my passport. Evidently his special thing. He smote his stamp lustily and we scurried past his gate.

—Tarzie Vittachi,
Condé Nast Traveler

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



DUKAKIS' PRINCIPAL HOPE NOW

is to play effectively on the unfocused, but genuine, anxieties felt by millions of voters about the economy: that they have not participated fully in the economic boom, that the future won't be as good as the present, and that somehow the U.S. is losing its edge in the world economy.

Bush could dish Dukakis in this area by stressing several valid points.

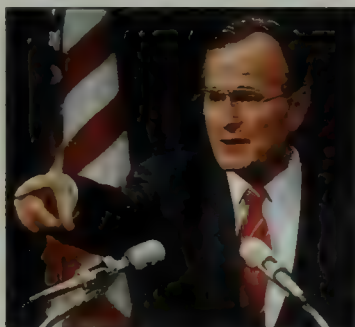
We're not alone. The sweeping changes that have buffeted the U.S. economy are not a uniquely American phenomenon—they've hit all the industrial nations.

We're doing better. In terms of job creation (including high-paying ones), of technology (despite well-publicized Japanese successes, the U.S.' share of the computer and software world markets is growing), of investment (50% higher than five years ago), of growth in manufacturing productivity and output (the best we've ever done in

peacetime), the U.S. has adjusted to these winds of change more successfully than any other nation, including Japan.

The best is yet to come. The principles (lower taxes, less regulation, more individual choice and responsibility) behind these fabulous achievements are applicable to education, the environment, child care and health, not to mention achieving more prosperity.

The GOP standard-bearer has already confounded pundits and impressed voters with the vigorous, surefooted way he has conducted his campaign. He turned the



PHOTOGRAPH BY MICHAEL O'NEILL

tables on child care; he hasn't flinched from advocating a capital gains tax reduction despite Democratic taunts of helping the rich; and he has deftly used the Pledge of Allegiance issue to highlight the fundamental differences between himself and his opponent on defense and on values. If Bush tackles the "anxiety issue," he will triumph.

CALM DOWN, BRITAIN, YOU'RE IN GOOD SHAPE (AND SO ARE WE)

British economists and financiers are in a dither over the Sceptered Isle's ballooning trade deficit. As a result, the Thatcher government has boosted short-term interest rates from 7½% to 12%.

The apprehension is utterly misplaced. The British are misinterpreting those trade numbers just as we have done with ours.

American investors and executives have a stake in all of this. Too many economists and policymakers are making a fundamental mistake in the way they look at trade figures, one that can be very costly in lost economic growth.

Trade deficits or surpluses are meaningless in measuring the health of an economy. The U.S. had a trade surplus during the depths of the Depression—was this surplus a sign of vibrancy? Nor does inflation result from a trade deficit. In the late 1970s the U.S. had a balanced trade account—and double-digit inflation. Japan in the Fifties and Sixties had huge trade deficits—and little inflation.

A trade deficit is *not* the equivalent of a company's losing money. Cash flow would be a better analogy. A vibrant

company may need considerable capital to finance growth; negative cash flow here is hardly a sign of ill-health.

Overseas capital is pouring into Britain because, for the first time in a century, its economy is performing better than those of its continental rivals, and prospects there are

more promising than in most nations. British productivity is soaring. Investment is growing. The private sector is booming. Inflation is low.

The red ink is a sign of strength, not weakness. To throttle the economy in order to reduce a trade shortfall would be a folly of the first order. Yet that is what "experts" are urging. They have woefully misdiagnosed the deficit as a symptom of trouble when it is actually a result of vigorous health, like that growing company.

If other countries pursued, with Thatcher/Reagan-like persistence, policies of less taxation and less regulation, our trade shortfalls would disappear because the rest of the world would catch up to us in the pace of economic growth.

Progress here and in Britain is being jeopardized because of obsolete thinking.

Britain's Trade Jitters

—New York Times

Thatcher's red ink

—The Economist

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Astra flies farther, faster

In absolute terms, Astra can take you more than 3,570 statute miles with an executive payload and NBAA VFR reserves*, a feat no other jet in its class can match! More importantly, it gets you there faster; on a non-stop New York City

to Los Angeles flight, Astra will arrive an hour or more ahead of its closest competitor**. In fact, at higher cruising speeds, Astra's range superiority increases dramatically. At Mach .80, for example, Astra can travel more than 3,150 statute miles with four passengers. Its longest-range competitor, the BAe 800, suffers a decrease in range to less than 2,540 statute miles when pushed close to an .80 cruise speed. To buy an aircraft with perfor-

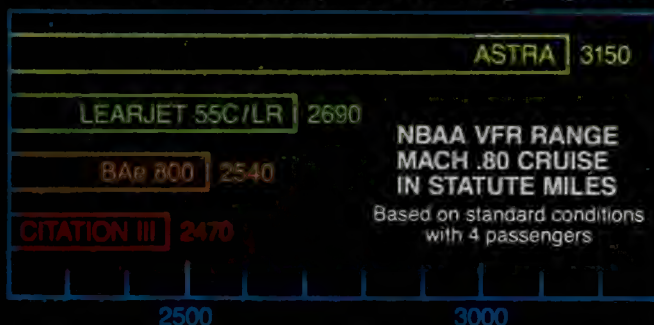
mance greater than Astra's, you would have to spend more than twice its price! That's leadership.

Leadership in technology

Astra is the leader in its class for a disarmingly simple reason; it was *designed* to be. This aircraft was engineered to new standards far more rigid than those our competitors faced. They include a new type certificate to the latest FAA regulations, including the strict new damage tolerance requirements.

The technology to meet these new standards has given Astra enormous advantages. Astra's wing, carved from solid slabs of aluminum, provides greater lift with less drag, and greater strength with less weight. It incorporates leading edge slats, found *only* on the world's most sophisticated aircraft, that provide stability at both high Mach numbers and the lower speeds required for optimum safety during takeoff and landing.

Viewed as a total package, Astra is a highly advanced aircraft that has indeed captured the leadership in range, high-speed cruise capability, runway performance, fuel efficiency and more. For additional information on Astra's design leadership, please call our President, Roy Bergstrom, at (609) 987-1125. Or send us the coupon below, and make us prove it!



Ranges shown are based on performance information using data that allows the highest possible cruising mach number closest to .80.

to Los Angeles flight, Astra will arrive an hour or more ahead of its closest competitor**. In fact, at higher cruising speeds, Astra's range superiority increases dramatically. At Mach .80, for example, Astra can travel more than 3,150 statute miles with four passengers. Its longest-range competitor, the BAe 800, suffers a decrease in range to less than 2,540 statute miles when pushed close to an .80 cruise speed. To buy an aircraft with perfor-

*Source: 1988 Business & Commercial Aviation Planning and Purchasing Handbook, revised.

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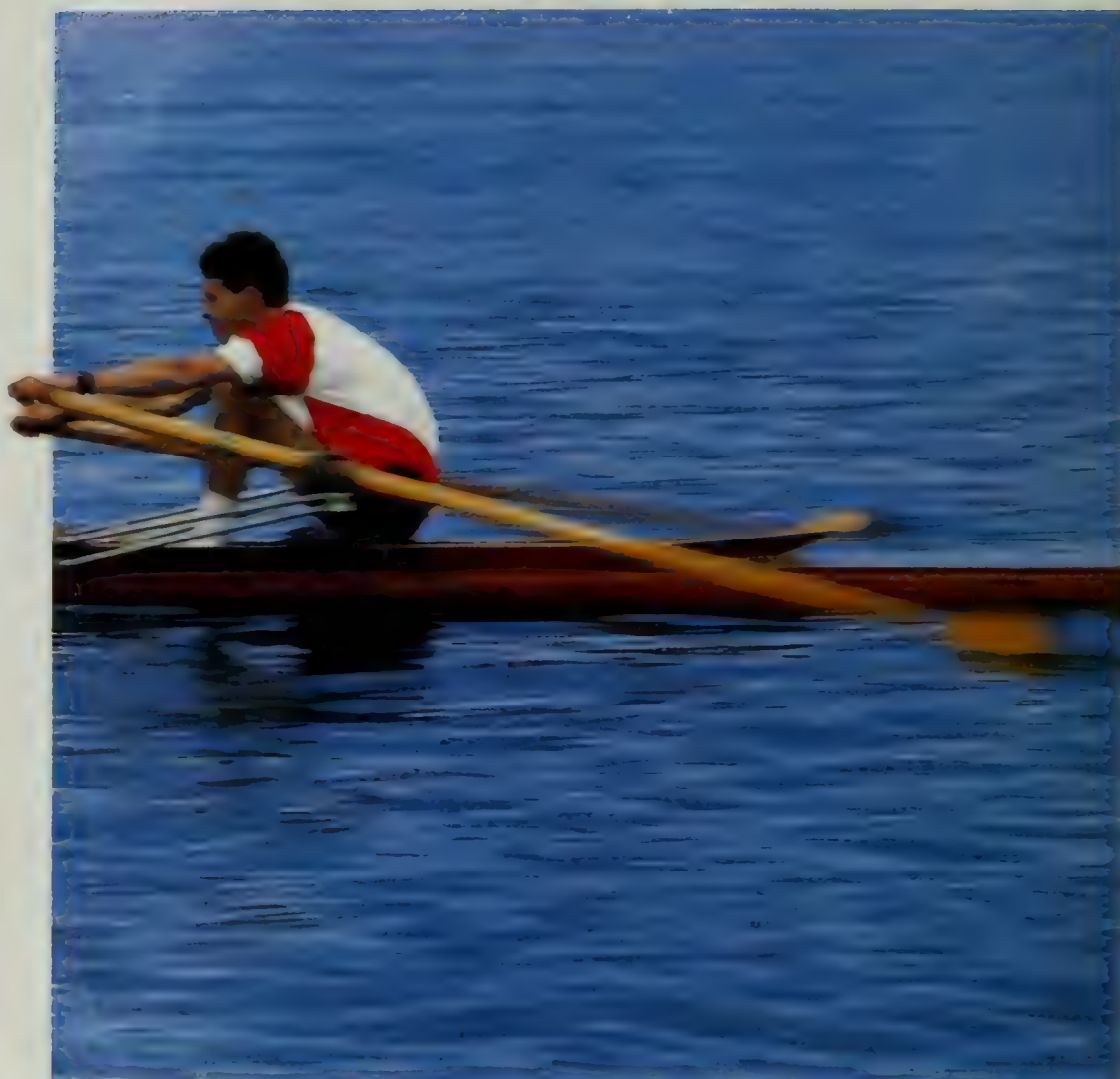
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Volatile markets could drive oil below \$10

First Seven Sisters, then OPEC, now the Seven Friends?

GEOPOLITICS AS USUAL?

OIL PRICES ARE HEADED DOWN A LITTLE, says conventional wisdom, from around \$15 to \$17 a barrel to maybe \$13 to \$14 a barrel.

Don't be so sure. In the short run, the oil market could be as volatile as in the summer of 1986, when oil prices dropped below \$10 a barrel.

Beyond the obvious reason—the anticipated rise in Iran's and Iraq's production if they are to rebuild their war-torn economies—is OPEC's continuing disarray. Items, listed by London-based oil analysts with Shearson Lehman Hutton:

- Saudi Arabia is producing 4.6 million barrels per day (some say nearer 5 million barrels per day), versus a quota of 4.343 million.
- Kuwait is at 1.4 million bbl./day, versus a quota of 1 million.
- Venezuela cheats by renaming oil as condensate and selling outside its quota. (The issue was ducked at the OPEC meeting last June.)
- Iraq could quickly add 1 million bbl./day to its present 2.7 million output when the new Petroline pipeline is completed early next year, and wants a higher quota than Iran's 2.369 million bbl./day.
- Iran, the wildest card, could increase output substantially from today's 2.3 million bbl./day.
- Saudi Arabia and Kuwait have been producing 400,000 bbl./day from a no-man's-land between their countries, dubbing it "war relief" for Iraq. Who knows what will happen to this output now?

IN ANYTHING LIKE A FREE market, oil prices would surely react to this heavy overproduction by falling well below \$10 a barrel. But the oil market is not free. Nor is it clearly cartelized, as in 1973 and 1979, when OPEC produced up to 56% of world oil. Its share is now 40%.

One theory sees OPEC members as jockeying to build output as a negotiating ploy in advance of the club's planned October meeting. But even if there is an official deal, OPEC's members lately stick to agreements for no more than a few months at a time.

Another theory, says Michel Marks, president of New York-based oil trader MercOil, is that we are seeing the emergence of a new power group of seven in oil—the U.S. and U.K., Saudi Arabia and Kuwait, and three major oil companies, BP, Shell and Exxon—which all want stable oil prices, at around \$15 a barrel. For five of these seven, the motives are different but obvious. But why the U.S. and U.K.?

Britain is in one of its perpetual balance-of-payments crises, and the immediate concern is further loss of oil export revenues, already declining in line with falling North Sea output.

For the U.S., the lowest possible oil prices will be a disinflationary blessing in the runup to the election, offsetting higher food prices. But longer term it will again depress the southwestern states' economies and threaten the banks, as heavily indebted oil-producing countries (Mexico, Venezuela, Nigeria, Indonesia) suffer.

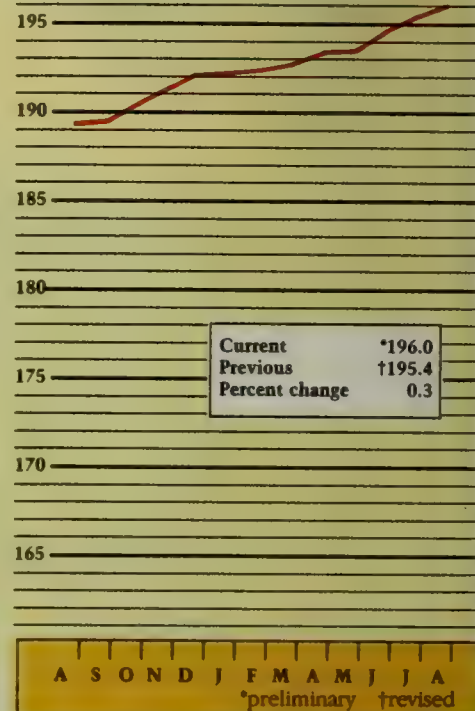
The geopolitical advantages of stable oil prices would normally out-rank the purely domestic political advantage of falling prices. But OPEC's disarray may be stronger than geopolitics as usual.

The Forbes Index

Forbes Index



12-month closeup



Current	*196.0
Previous	†195.4
Percent change	0.3

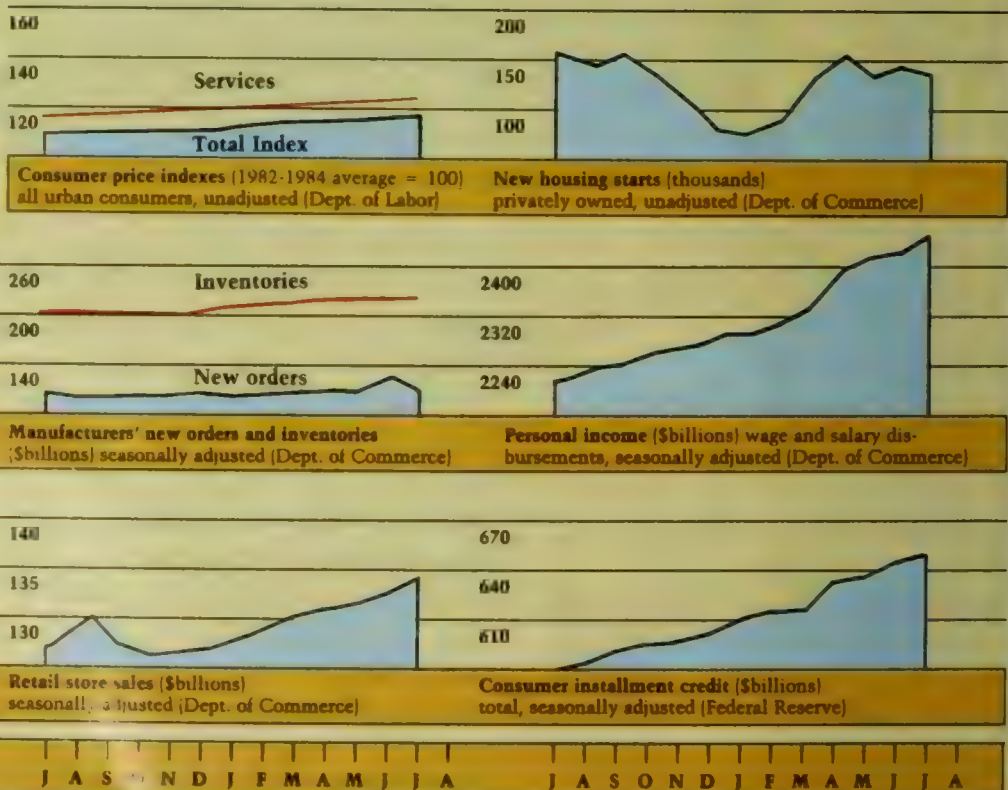
Uneven results. The Forbes Index ended July with a 0.3% month-to-month gain, but the overall number covers decidedly mixed trends in several components of the Index. New claims for unemployment insurance fell 6.3% in August, but the overall unemployment rate climbed 0.2% during the same period, as factory payrolls declined for the first time since January 1987. Manufacturers' inventories

rose in July by 0.7%, but new orders dropped 7.1%. One factor in the decline was higher prices of raw materials and parts. July retail sales were up 0.5%, a small gain from June, while consumer installment credit fell 0.4%, down almost 0.9% from the previous month. Consumers would appear to be curbing their use of credit more than their buying habits.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



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Jaguar's fully independent suspen-

sion provides smooth riding comfort and athletic handling agility. Patented pendulum isolation tunes out the annoying effects of minor road imperfections. The self-leveling rear suspension automatically compensates for changes in passenger or cargo loads. And Jaguar's four-wheel power disc brakes are complemented by one of the most advanced anti-lock (ABS) systems.

Spacious and serene, the XJ6 cabin is rich in Old World splendor and enlightened comfort and conveniences. It is trimmed with hand-finished and inlaid walnut veneers. The orthopedically contoured seats are faced with finely stitched leather. The automatic

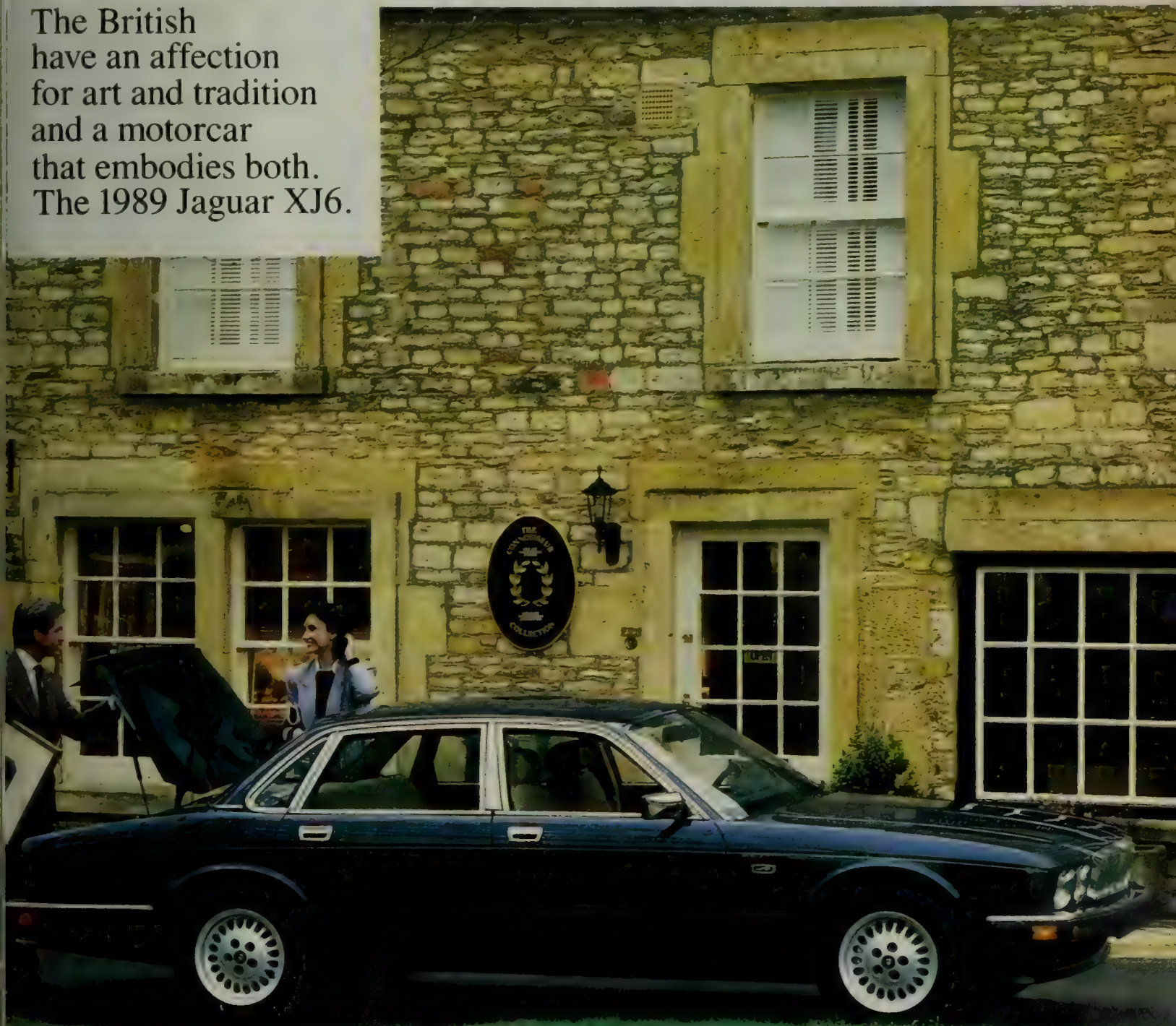
climate control system is regulated by computer. The 80-watt stereo system plays through six speakers. Infrared remote control lets you operate the central locking system without a key.

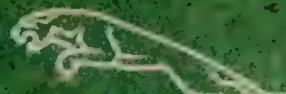
To appreciate all of the art and Jaguar traditions of the XJ6, see your dealer for a test drive. He can provide details on Jaguar's uniquely comprehensive three-year/36,000-mile limited warranty, applicable in the USA and Canada, and on Jaguar's Service-On-SiteSM Roadside Assistance Plan. For the name of the dealer nearest you, call toll-free: 1-800-4-JAGUAR.

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The Bigger Picture

Open a U.S. plant and lose profits. Don't open a U.S. plant and lose share. An easy choice for a Japanese machine tool maker.

The new meaning of "Made in the U.S.A."

By Rick Reiff

LOOK NO FURTHER than Charlotte, N.C. to see a beachhead for the latest Japanese invasion of U.S. industry—this one on the unglamorous battleground of machine tools.

The Charlotte plant opened by Okuma Machinery Works Ltd. last year employs only 100 workers and produces just 30 lathes and machining centers a month, about half as many as it could sell. But for \$540 million (sales) Okuma, this struggling enterprise is a textbook example of how to protect U.S. market share—and build a future—while avoiding the strictures of a voluntary restraint agreement, signed in 1986, that limits Japanese machine tool imports to roughly 30% of the U.S. market.

There's a \$4 billion annual market in the U.S. for lathes, presses and other metal-shaping machines, and the biggest advantage Japanese competitors may have in the fight for it is a subtle one—attitude. Okuma, long a dominant machine tool maker in Japan, has moved fast since establishing a U.S. sales force four years ago. It now sells 15% of all computer-driven lathes. Says Akira Matsutani, Okuma's president, "Once we come in, we catch up."

How Okuma plays catch-up can be seen in a \$22 million order Okuma

won in July to supply 20 work cells—each a grouping of several lathes, grinders and machining centers—to Caterpillar Inc.'s hydraulic components plant in York, Pa. To win the order, Okuma agreed to assign a technician to the Cat plant full time and open a parts shop in York. Some bidders didn't match the offer. Just last month Okuma beat out several other bidders for a \$7 million order from Superior Industries International Inc., for the plant that the auto wheel maker is building in Rogers, Ark.

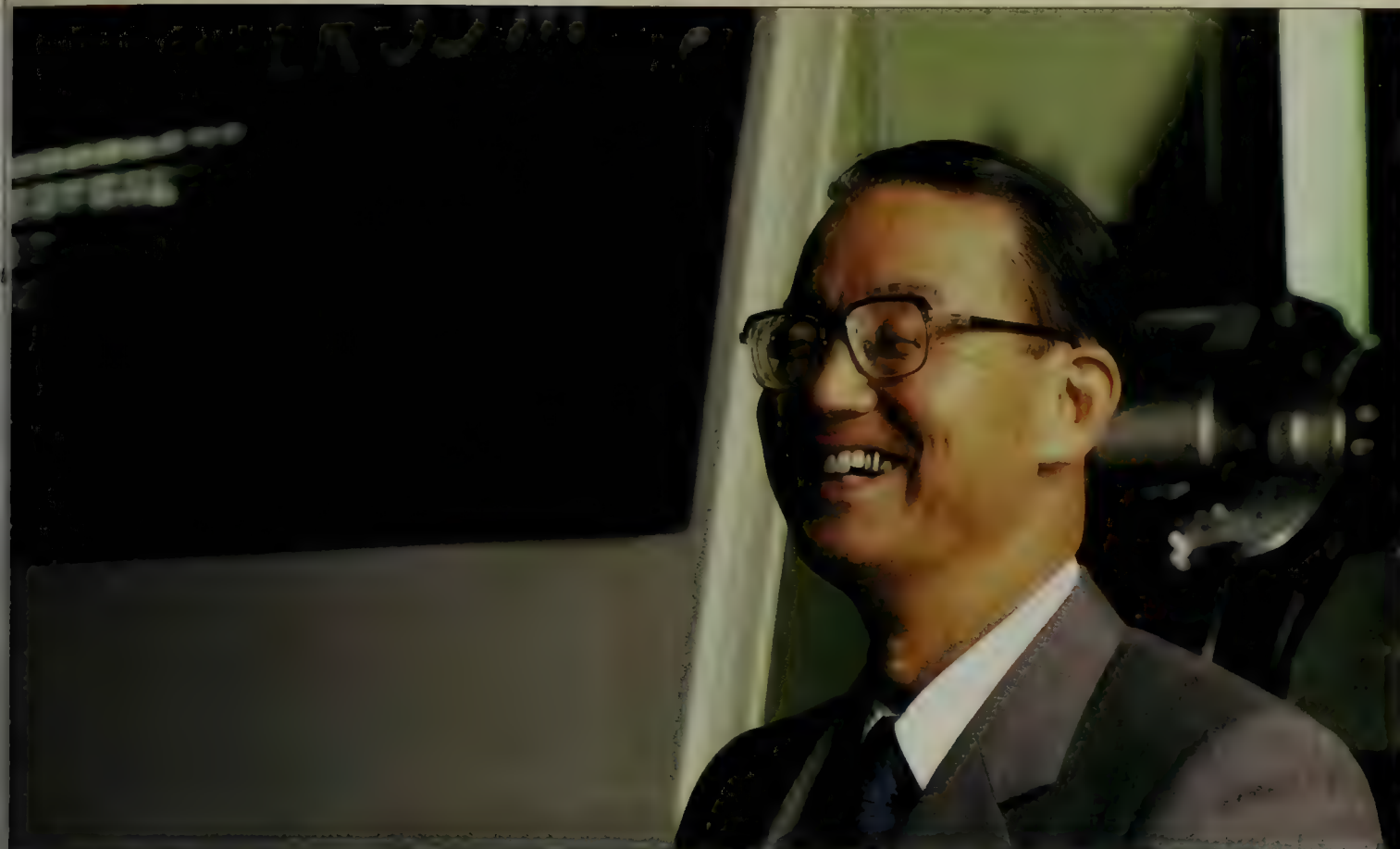
Okuma makes its most sophisticated and highest-profit machines, some costing \$1.4 million each, in Japan. Under the voluntary restraint agreement, only about 60 of them per month can be imported. From Charlotte, Matsutani plans to supply another 60 machines, mostly \$115,000 job shop lathes, once the local work force is up to it.

That will take time. Okuma sent 17 of its best machinists to train the Charlotte work force. Most of the teachers speak only crude English, so training proceeds slowly, using hand signals. Suppliers are another headache. Okuma says it rejected 18 U.S. foundries before finding two in Ohio that made passable castings.

To exempt its Charlotte-assembled machines from import quotas, Okuma has left out Japanese-made

controls and substituted devices made by Allen-Bradley Co., the Milwaukee-based industrial controls unit of Rockwell International Corp. And to make certain that the varying American parts add up to the equivalent of a Japanese whole, Okuma builds just one every seven hours, about half the rate at its plant in Oguchi, Japan. Until Charlotte comes up to snuff, Okuma is filling additional U.S. orders from its dwindling inventory of Japanese-built machines, stockpiled before the import quotas took effect.

It's working. For all the difficulties, Okuma's U.S. sales are expected to reach \$125 million in the year ending next Mar. 31, up 25% in two years. But at a price. Like other Japanese manufacturers with U.S. plants, Okuma wants to export product to take advantage of the weak dollar. A Japanese lathe that cost 15% less than its U.S. competitor two years ago costs 10% more today because of the yen's strength. Even so, Okuma's U.S. machines still cost more to build than its Japanese models. That's the downside of starting a factory from scratch with a raw Charlotte work force. But there is a learning curve to ride. Japanese-owned competitor Mazak Corp., which has assembled machine tools in Florence, Ky. for 14 years, now exports almost a third of



Okuma's Akira Matsutani

"Once we come in, we catch up."

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its American products.

The upshot is that starting up its U.S. manufacturing operation will cost Okuma \$30 million in capital investment and operating losses by 1989. That's no small sum for Okuma these days. It earned just \$8 million last year—a desperately thin margin of 1.5% on sales. The margin has improved to a so-so 5% this year.

Matsutani looks upon it as necessary short-term pain. What counts, he says, is the long-term relationships that Okuma can build and the flexibility it gains in responding to currency swings. That's the same conclusion reached by Mazak, a subsidiary of Yamazaki Mazak Corp., now doubling the size of its plant. And by Japanese-owned LeBlond Makino Machine Tool Co., building a new plant at Mason, Ohio.

Make no mistake: These are good times for U.S. companies, too. Orders are up 80% this year, to the highest level in eight years. U.S. products and service are better than ever. Even so, the surprising fact is that it's Japanese companies that are adding the most to U.S. machine tool plant capacity. Salomon Brothers analyst David Sutliff estimates that they now account for close to 30% of that capacity.

Made in the U.S.A.? Here, in yet another area, that phrase is losing meaning. ■

Americans are eating less steak but wearing more leather. Result: higher hide prices and good fortune for a handful of families that have dominated the hide business for generations. Now comes competition.

Behind that luxurious leather

By Phyllis Berman
with Dana Wechsler

ANIMAL HIDES are no pretty picture when stripped from carcasses and tossed down a chute at the slaughterhouse. Even after a brine bath, the hides are still smelly and covered with hair when they are shipped to the traders. It's not an appealing business, but it's a big and lucrative one. Selling animal hides adds up to an \$8 billion business

worldwide.

Until recently hide trading was easy money. Butchers and slaughterers made their profits from meat and were only too happy to get rid of the skins at just about any price offered them. Tanneries, on the other hand, needed a reliable supply of raw material. Hide traders, middlemen between the meatpackers and the tanneries, made nice spreads.

Of course, markets could go against them, especially if they were buying



David Wells

Hide from a Holstein at Taylor Packing

To traders, blood, flesh and salt smell like money.

in one part of the world and selling in another. They got hurt, for example, when devaluation increased the price of U.S. hides by a third, and Mexican buyers couldn't pay for what they had ordered.

But their risk was limited by the fact that their access to information

was better than that of either their suppliers or their customers. To top it all off, there was a natural limit to competition: The business seemed so smelly and unattractive that not many folks wanted in.

Those who didn't turn up their noses prospered. Hide trading began to take its current shape in Europe in the middle of the 19th century. The Kaufmann family of Rotterdam traces its ancestry to Mülheim, Germany. It was there that S.G. Kaufmann, great-grandfather of Peter Kaufmann, current head of the family, became a renderer, one of the few jobs open to Jews in that time and place. He wheeled a pushcart from butcher to butcher, picking up carcasses, scraping their fat and selling the skins. In 1890 Kaufmann's grandfather Carl opened an office in Rotterdam and began to build up an international network. One son, Hans, sailed to Buenos Aires, then the world's largest source of beef, returning four months later with 50,000 or so hides. His brother George set up a sales operation in New York.

The family left Holland before World War II, ending up in New York. Peter Kaufmann went to Choate, then joined the U.S. Army. They returned to Rotterdam in the 1950s, where their business was being run by a loy-

al caretaker. Peter Kaufmann now lives in a modest townhouse in an affluent Rotterdam suburb.

The Hollanders of Sweden trace their ancestry to Altona, a small town near Hamburg. They had been trading hides for three generations before the Nazis came to power and forced them to flee the country. One son, Fritz, went to Sweden, the other, Herman, went to New York.

The Chilewiches were tanners in Russia before the 1917 revolution. The two brothers opened offices in Poland and Germany, where they operated until World War II. Then they relocated again, this time to New York. The Chilewich company is now the largest hide-trading outfit in the world. It had sales of \$1 billion last year and ranked 94 on *FORBES'* list of the U.S.' largest private companies.

The Chilewich office is in a nondescript building on Wall Street. It is the opposite of posh—a jumble of worn furniture and memorabilia. The family lives in a large cooperative apartment on Park Avenue, which they decorated themselves. They have a collection of contemporary Russian art by little-known artists. They drive a Buick Electra to their summer home in East Hampton, N.Y.

None of these families seeks pub-



Piles of hide ready for shipment
Markets can go against you.

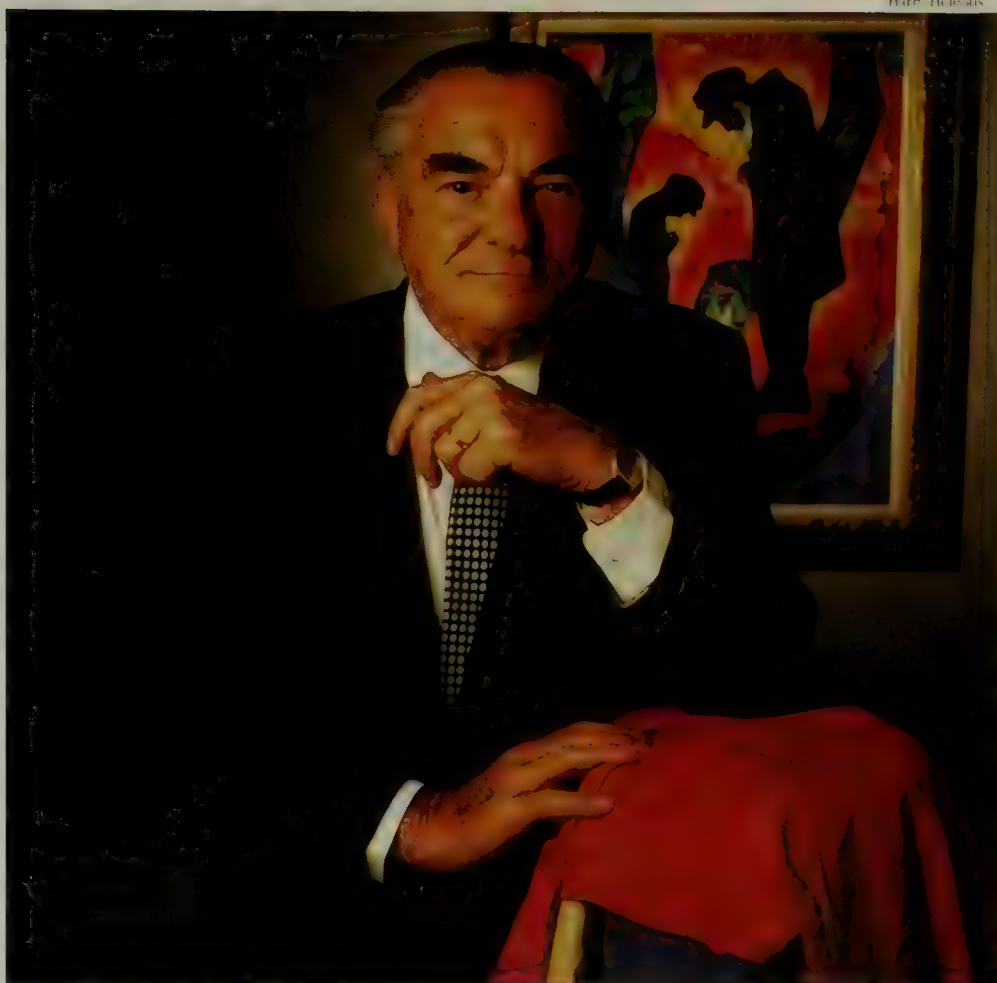
licity. They prefer to stay out of the limelight and simply do their trading. But now competition is closing in on this cozy little business. Big U.S. slaughterhouses now understand that those hides have value, and they see no reason why they should cut middlemen into the business. They are making their own contacts with tanneries, particularly with those in Korea, which take by far the largest share of U.S. hides. IBP, Inc., is even doing part of the tanning process itself. "You are looking at an industry that is right in the midst of a significant transition," says I.J. Grisafi, a hide manager at Taylor Packing, the 12th-largest meatpacker in the U.S. "The traders are no longer all-powerful."

Why have the meatpackers started paying attention to a business they long neglected? Because of the growing demand for leather, combined with a dwindling supply of hides. Not only are fashion-conscious Americans buying more leather garments, but millions of Chinese are wearing leather shoes for the first time. At the same time, the size of U.S. herds has dropped—30% since 1975—primarily because Americans are eating less red meat. Since hides are a by-product of meat, the combination of higher demand and lower supply has sent hide prices skyrocketing—from 45 cents per pound in 1977 for Holstein hides to \$1.22 per pound last August. Even at those prices, hides yield merely a fraction of the total \$700 to \$750 for which beef cattle are now sold, so no one would raise cattle for the hides alone.

Today the hide, together with the offal, or trimmings, the heart, liver, tripe and stomach, make up 12% to 15% of the total value of a feed steer. That percentage shifts daily, but recently an 1,100-pound steer's by-products, or "drop credit" as the industry calls it, had a value of about \$9.50 per hundredweight, or \$104 per head. The hide alone accounts for 60% to 70% of that, and, says Rusty Browning, who runs the hide business for IBP, "What we get for the drop is four times what it costs to slaughter an animal."

IBP wants even more. In 1984 it opened its first tanning facility. There IBP sends almost a quarter of the 8 million hides it produces each year, submitting them to a process known as wet-blueing. Wet-blueing, giving the hides a bath in chemicals, including the mineral chrome, is the first step in the tanning process. Once it is completed, IBP can charge 15% to 20% more for the hides.

"We don't need the dealers. We can



Simon Chilewich of Chilewich Sons

Sales of \$1 billion and no liking for the limelight.

sell hides internationally just as well as they can," says Browning.

But the traders haven't prospered for nearly two centuries without learning the art of survival. They have cultivated tannery contacts over generations. They know exactly which tanneries, from India to Italy, need

what grades of rawhide. And they are willing to make markets internationally. They are self-financed; they buy for their own accounts, sell short, hold inventories, take everything from vegetables to cement in barter, and move agilely into and out of their positions almost on instinct. Would



S.G. Kaufmann's hide warehouse in Germany, 1893

A humble start for a now prosperous business.

IBP hold inventory in a soft market in an effort to stabilize hide prices? Not likely.

And the traders have other businesses to fall back upon. Each of the trading families diversified years ago. In some cases the need to barter forced them into it, in others they simply took on other products. The Kaufmanns got into furs, and the bris-

cles and hairs that go into hairbrushes.

The Hollanders built a tannery in Argentina and began making leather garments. They used their neutral base in Sweden to build up a thriving trade with Eastern Europe and Russia, particularly in foodstuffs. Today A.J. Hollander is Sweden's third-largest trading company.

The Chilewiches took on dozens of

other commodities, such as vegetable oils, to trade worldwide. More recently they moved into cattle feedlot management in the U.S. Says George Donath, a London-based trader for Kaufmann's Handel-Maatschappij N.V., "Some of these families have been around for five generations. And five generations from now, they will still be around." ■

The real scandal about the proposed Bass bailout of American Savings isn't a controversial "merchant bank." It's the authorities' continuing attempt to hide the real costs of the S&L crisis.

Blackballing Bass

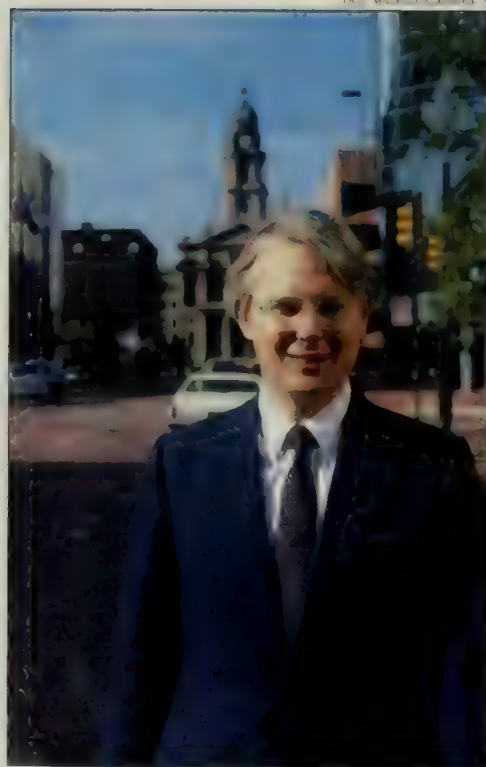
By Howard Rudnitsky
and Allan Sloan

WHY all THE FUSS over Robert Bass' proposed "rescue" of American Savings & Loan? Here is a deal, after all, that promises to refloat the biggest busted S&L in the country—the infamous \$29 billion institution that Charles Knapp ran into the ground (FORBES, July 30, 1984).

The deal became controversial because of lobbying by politically influential S&Ls that would rather not have to compete with a giant Bass-owned thrift endowed with enormous federal subsidies. But, miraculously, it also seems to be belatedly dawning on Congress that M. Danny Wall, chairman of the Federal Home Loan Bank Board, has been "rescuing" busted S&Ls in a way that minimizes cash outlays in the short run, but which will cost his successors—and the taxpayers—dearly in the long run.

The proposed Bass deal—while heavily loaded in the Texas billionaire's favor—isn't all that egregious compared with the Federal Savings & Loan Insurance Corp.'s other recent deals for dead S&Ls. At least Bass is putting some money at risk—though maybe not for very long.

Here's what's really going on. FSLIC—commonly known as Fizz-



Robert Bass

Someone had to take the corpse.

lick—claims to be "rescuing" American Savings, which was owned by Financial Corp. of America until FSLIC seized it in September, forcing FinCorp to go into Chapter 11.

Fizzlick claims the rescue of American Savings will cost it only \$2 billion—a suspiciously low figure, con-

sidering that American appears to be more than \$3 billion in the hole.

Wall declines to provide details that would verify that \$2 billion figure, which appears to be based on optimistic assumptions, fancy number-crunching and wishful thinking. Maybe he thinks: When the real facts are out, I'll be long gone.

What makes the Bass-American Savings deal possible is that Bass is taking a \$500 million FSLIC promissory note and counting it as real money. That note—"Wall paper," as it were—plugs part of the gap between the S&L's liabilities and its assets. By strict accounting standards, "Wall paper" isn't high quality: FSLIC, after all, has been characterized as insolvent by no less an authority than the U.S. General Accounting Office.

The Ford Motor Co.—whose First Nationwide Savings subsidiary spent the better part of a year in a fruitless attempt to take over American Savings—decided that, as a public company, it couldn't accept "Wall paper" at face value without causing heart palpitations among its accountants. Ford offered to put up more cash than Bass—\$1 billion to his \$550 million—but wouldn't take FSLIC paper without collateral, which wasn't forthcoming.

Why will Bass take what Ford wouldn't? Because he is betting that, for political reasons, the federal government won't let one of its agencies default. Bass, as a private investor, can brush aside accountants' quibbles.

Because big, sound public companies wouldn't take "Wall paper," Bass had the American Savings field to himself—and made a correspondingly shrewd deal. For his part, Wall was in a bind because a run had already started on American Savings deposits and because technicalities in the federal budget process limited his maneuvering room.

The heart of American Savings' problem is about \$19 billion of questionable assets: \$5 billion of crummy real estate loans and \$14 billion of mortgage-backed securities that are worth less than American Savings paid because rising interest rates have

eroded their value.

Clearly, these murky assets, which will be stuffed into a "bad bank," will need to be written down—and FSLIC has guaranteed that for ten years it will eat virtually all the losses.

Obviously, no one knows how much those losses will ultimately add up to. What will happen to property values? What will interest rates do? But Wall solemnly assures all and sundry that the "present value" of all ten years of promised assistance is a mere \$1.5 billion.

The "present value" game is part of every Wall "rescue" deal in which Fizzlick agrees to assume the burden of troubled assets. Wall's staff quantifies the unquantifiable, and reduces it to a "present value" number based on assumptions that the bank board treats as proprietary information and won't disclose. We suspect it won't disclose the assumptions because

they wouldn't hold up under scrutiny.

Bass will invest \$500 million in the "good" part of American Savings—a sound, profitable S&L with about \$10 billion in assets and a first-class branch system throughout California. (Another \$50 million of Bass capital will go into the much-discussed "merchant bank.")

The sound bank ought to earn at least \$70 million a year with mediocre management—and much more under superior management. Bass has agreed to give Fizzlick a 30% stake in the healthy bank, plus 75% of the cash he realizes from tax-loss benefits—at least "nine digits" worth.

But weep not for Bass. Even with these concessions, Bass could easily raise hundreds of millions of dollars by selling debt or equity in a new S&L holding company. Those proceeds, plus Bass' share of certain tax benefits, would let him take most or all of

his money off the table and still own a big piece of a huge, valuable S&L.

Forget the flap in the media and in Congress about the proposed merchant banking subsidiary. Bass' business rivals waved that red herring because they knew it was easy to get congressmen exercised about the prospect of using federally guaranteed deposits to fund things such as hostile takeovers. What the rivals really want, however, is to block the birth of the healthy new federally subsidized competitor that Bass would run. They want to blackball Robert Bass.

The real scandal here isn't the nice deal that Fizzlick handed Robert Bass—after all, someone had to take the corpse off Fizzlick's hands. The real scandal is the continuing efforts of the authorities to hide from the American people the full dimensions of the S&L disaster and how much it will eventually cost the taxpayer. ■

Is America's second-biggest soap company suddenly Wall Street's biggest hunk of shark bait? Not if Reuben Mark can help it.

Colgate's challenge

By Richard Behar

THE GIANT Colgate-Palmolive Co. (1987 sales, \$5.6 billion) recently surfaced as a possible takeover play in the *Wall Street Journal's* "Abreast of the Market" column. Little wonder there are rumors: Here's a company sitting on nearly \$1 billion in cash and owning such valuable brand names as Ajax, Fab and Irish Spring. Overseas, where it gets more than 60% of its revenues, Colgate is a market leader in consumer product categories ranging from detergents to toothpaste. Colgate's debt is around half a billion dollars against a market capitalization just over \$3 billion.

You don't have to be a takeover artist to see the appeal: Make a tender

offer well over the market price, then use the cash and borrow against the assets to get most of your money out. You end up controlling a debt-burdened company for a net outlay of a few hundred million dollars.

Trading at a modest 11 times projected 1989 earnings, there's no question that Colgate has the look and smell of shark meat. Back out the cash, and you get a price tag of just \$2 billion for more than twice that amount in revenues and for some of the most desirable consumer franchises in the world.

But before any shark can gobble up Colgate, it's first got to get past Reuben Mark, 49, the company's quick-in-the-water chairman and chief executive. He's a career Colgate man with a Harvard M.B.A. and a subtle, analyt-

ical mind.

Mark has his own strategy for making the best of Colgate's impressive assets. Since taking charge in 1984, Mark has slashed plant capacity nearly 30%, cut 15% of the work force, bought in 15% of the stock and sold off unrelated businesses. The latest to go was Kendall Co. This health care products company was in an attractive business, but it fetched \$960 million, and the sale got Colgate out of a business that was far afield from its traditional soaps and toiletries.

You can't knock the results of what Mark has been doing. Last year Colgate's return on equity rose from 19% to 21%. That's partly because Colgate has been buying in stock, but earnings gains have averaged 18% annually since 1984.

Mark, however, has yet to deal successfully with Colgate's glaring weakness: its profitability. Colgate has among the lowest profit margins in the industry. Its estimated 1988 pretax margin, 6.5%, pales next to Procter & Gamble's 8.4%, Unilever's 8.7% and Clorox' 16.8%.

Why this flawed profitability? Lacking, say, Procter & Gamble's dominant market share, Colgate has held on by disguised price-cutting. This takes the form of promotions such as trade discounts, coupons and advertised specials. Colgate spends more on promotions than any rival. The inevitable result is that it makes less on each bar of soap and tube of toothpaste than P&G does. A few painful experiences with cutting back on promotions to save money have convinced Mark that eliminating



Reuben Mark, chief executive of Colgate-Palmolive Co.

How will he spend his \$1 billion? "Bunts, walks and singles."

"Outsiders may be looking for some big domestic product. But what will generate profits for many years is a modest new-product thrust worldwide, plus all those little things like higher productivity, efficiency, compensation tied to performance."

them will take years.

Despite weakness in its domestic business, Colgate last year earned \$2.97 a share—and this year should make around \$3.45. This compares with \$5.97 and \$6.60 for P&G. What keeps Colgate's overall profits up is its overseas business—and that's what Mark intends to concentrate on. Thus, of the 201 new products introduced by Colgate in 1987, only 3 were for U.S. consumption. "We recently approved spending \$1.5 million to buy a shampoo company in Australia with a 3% share," says Mark. "Sounds unimpressive, but that's how you get more profitable."

Take toothpaste, which provides Colgate with roughly one-third of its total earnings. Colgate regularly loses toothpaste wars in the U.S., but globally no rival can match the firm's 40% market share. Recently, P&G beat Colgate to the U.S. marketplace with Crest Tartar Control toothpaste. But less than a year later Colgate had its own tartar control toothpaste filling up store shelves from Copenhagen to Caracas.

Some on Wall Street would like to see Mark swing for the fences here in

the U.S. by plowing more money into new product development. Says Goldman Sachs research ace Jack Salzman: "Mark has whetted my appetite and I'd like to see Colgate start playing some hardball. I want something big." But Mark makes it clear that he doesn't intend to blow his \$1 billion cash hoard on some dramatic drive to reverse Colgate's U.S. weaknesses. He calls his strategy one of "bunts, walks and singles."

He adds: "We will succeed by doing a thousand things 1% better and not a few things 1,000% better. Outsiders may be looking for some big domestic product. But what will generate profits for many years is a modest new-product thrust worldwide, plus all those little things like higher productivity, efficiency, compensation tied to performance."

Like legendary Ohio State football coach Woody Hayes, Mark is saying he's going to march down the field with a strategy of "three yards and a cloud of dust." It doesn't make for headlines, nor is it guaranteed to keep predators at bay. As a sensible way to run a company, however, it has a lot to recommend it. ■

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Perhaps no business can be truly recession-proof, but American Building Maintenance Industries comes pretty close.

Clean-up job

By Ellen Paris

You'll never starve washing windows," Sydney Rosenberg is wont to say. He can prove it.

Rosenberg, 74, chairman of San Francisco-based American Building Maintenance Industries, Inc., has built a \$528 million (fiscal 1987 revenues) business providing janitorial, maintenance, security and related services for high-rise office, industrial and commercial accounts across the country. He weathered the last recession well; in the worst of it, 1981-82, aftertax margins were a fat—for ABM—2.3%.

Rosenberg is coping now, too, despite high office vacancy rates in many of ABM's major markets. True, his aftertax margins are thinner—down to less than 1% last year. And hard times in the real estate game are by no means his only problem. The company's insurance bill alone (mainly liability and workers' compensation) has tripled since 1985, to \$30 million a year. ABM's earnings fell to \$1.30 last year, compared with \$1.40 the year before, and \$2.26 a share in 1983. Explains Chief Executive David Anacker, 53: "When your customer is fighting for survival it's tough to raise prices. You have to do a lot of swallowing."

But for ABM, founded in 1909 by Rosenberg's father, a window washer, survival is not an issue. ABM now has 6,000 accounts, including such

landmarks as the General Motors Building in New York, the Bank of America building in San Francisco, Los Angeles' ARCO Plaza and Philadelphia's Mellon Bank Center. The janitorial business accounts for about 64% of revenues and 75% of profits. Other divisions run parking lots and garages (400 nationwide), fix elevators and rid homes and office buildings of insects. Adding to the cost squeeze, about half of the company's 35,000 workers are unionized. Janitors in San Francisco, for example, make \$11 an hour.

Thus has ABM had to work with its customers to lower both their costs

and its own. Take window washing. Instead of washing windows every two to three months on a fixed schedule, ABM now does them every six months or as requested by the customer. Same with lighting: Replace burned-out lights as needed, not on a regular schedule.

Meanwhile ABM is focusing on higher-margin businesses such as elevator repair and pest control. And as the lobbies of new office buildings use more marble and terrazzo flooring, ABM is doing more upkeep on them.

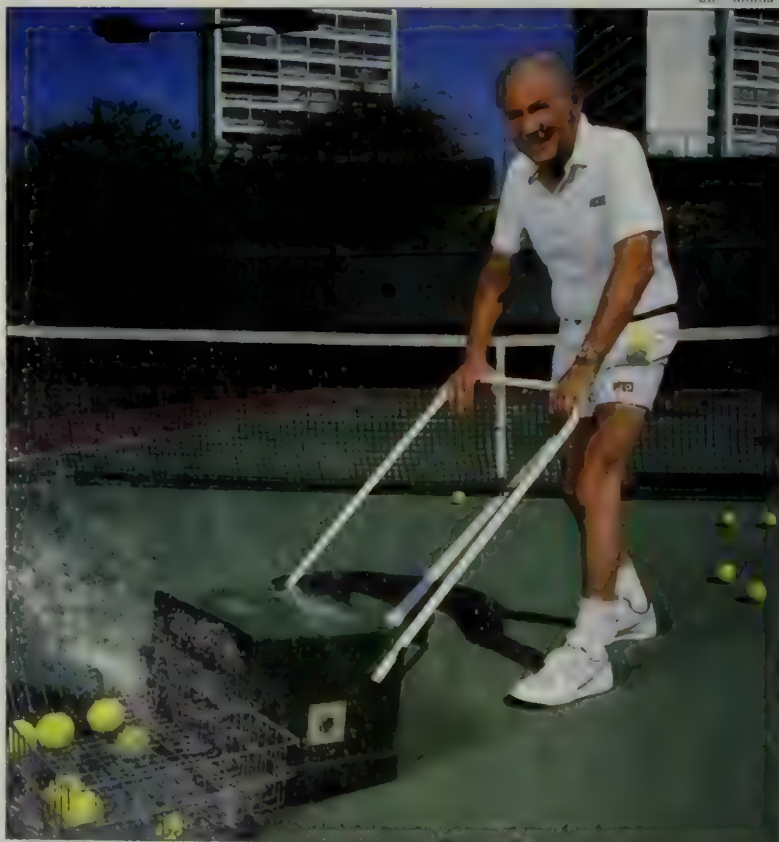
Smart businessman that he is, Rosenberg spies opportunities in tough times. "Owners are looking to save money and that opens doors for us," he says. "If we hear a building's been sold, we get out there and bid for the business because the first thing a guy does when he buys a building is ask himself, 'How can I save money?'"

Rosenberg's cost-cutting and push into new markets seem to be paying off. For the fiscal year ending Oct. 31, ABM's revenues are forecast to increase by 12%, earnings by 33%. The firm's stock, recently 26¾, is near its 52-week high. The national office vacancy rate, while still a high 19%, is down from 21.5% 18 months ago. "As the market gets healthier," says David Anacker, "the owners will allow us to recover what we had to eat."

With no doubts about his ability to avoid starvation, Sydney Rosenberg likes his prospects. But precisely how

he will play them, only Rosenberg knows. "We've got enough businesses to run that in five years we could do a billion dollars," he says. He owns about 30% of ABM's 3.9 million shares with his brother Theodore, 79, chairman of ABM's Executive Committee. The brothers have run the company since their father died in 1935. Collectively the men have nine children (including stepchildren). None are in the business.

An avid golfer and tennis player, Sydney Rosenberg still puts in a full day at the office. "We continue to look at LBOs and friendly offers," he tells FORBES on the patio of his hotel room overlooking the Pebble Beach Golf Links. But Rosenberg is in no hurry. "In the meantime," he says, "we'll just stay in our rocking chair and do our knitting." ■



ABM's Chairman Sydney Rosenberg
Seeing opportunities in tough times.

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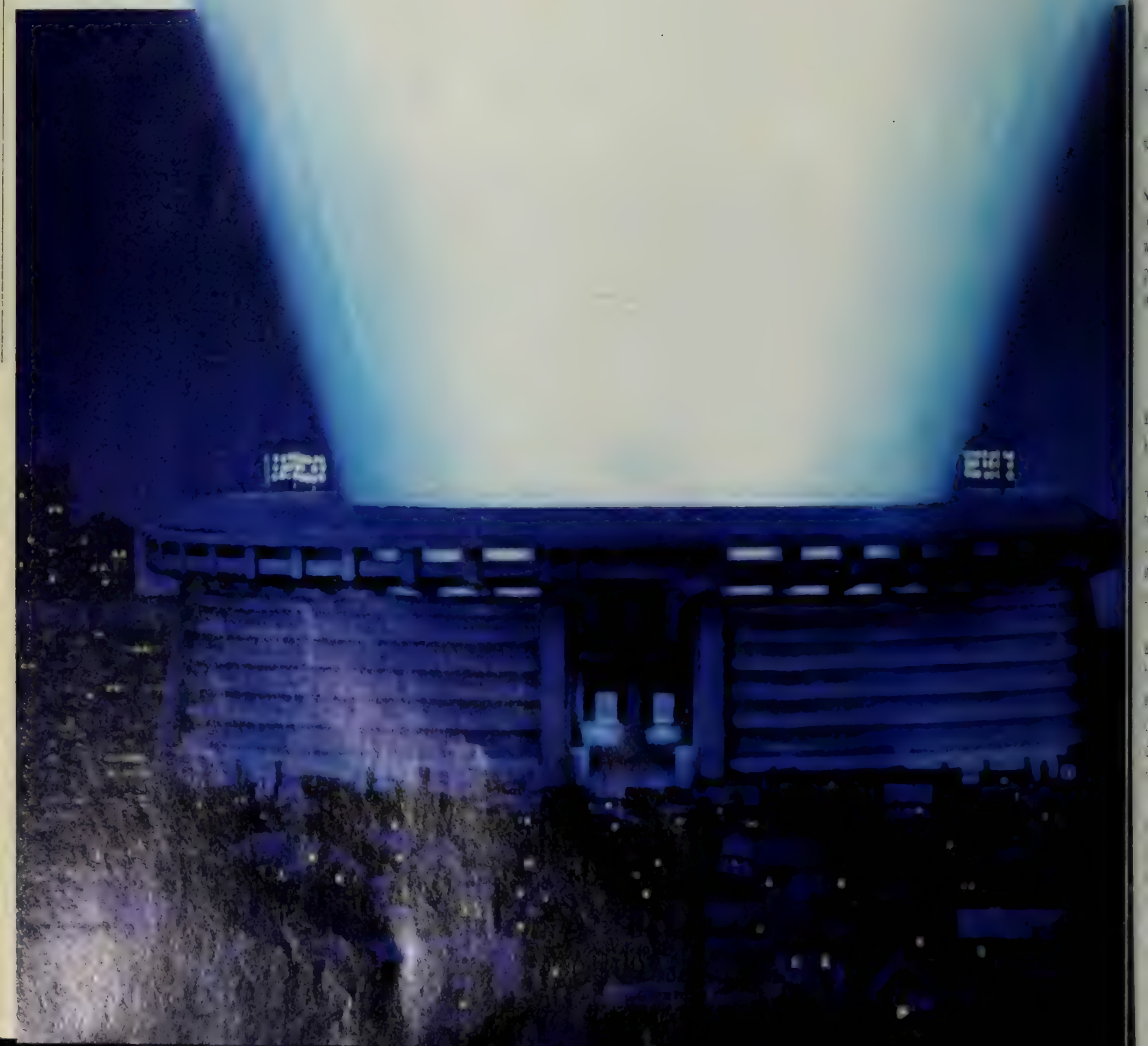


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The right choice.

Everywhere there is serious talk of peace and of arms reductions. So why aren't the arms merchants crying?

The arms trade—moving upmarket

By Peter Fuhrman

PEACE SEEMS to be breaking out all over. Are the arms manufacturers in despair? Far from it. "For companies like ours, selling high-tech weapons," says Felix Derungs, president of the military products division of Swiss armsmaker Oerlikon-Buhrle, "business is always best during a period of calm."

Bearing him out, arms traders agree that the world arms market will probably rise by a steady 5% to 8% from its record 1987 level of \$40 billion. For the U.S. and Britain, 1988 should be a strong year, with rising exports to the Middle East and Asia.

The Iran-Iraq war, which cost its two stalemated belligerents an estimated \$200 billion, created a new group of major arms exporters, including China, Egypt, Brazil, Greece and South Africa. These nations all made tremendous profits by running the U.S.-led arms embargo against sales to Iran and Iraq. These countries were the real war profiteers. Also benefiting were the Soviet Union and France, which together accounted for 70% of Iraq's \$25 billion in foreign arms purchases. But the trade was concentrated in commodity goods like guns, artillery and ammunition, not in high-technology products. When war ends, priorities change and the gun-running nations face hard times.

Iran and Iraq will not curtail their arms purchases. They will try to re-arm quickly with sophisticated and expensive weaponry, including air- and sea-launched missiles and command-control radar. "Neither side believes in the peace. They will use the pause to rehabilitate their economies and boost oil exports," comments Israeli defense specialist General Aron Levran. "They will use the revenues to expand and update their arsenals."

Both Iran and Iraq had to pay exorbitant prices during their eight-year-long war to "peace-loving" countries like Greece. The Soviets turned a nice profit, too. The Soviets sold Mig-29 fighters to Iraq for \$35 million each, nearly twice the price paid by India for the same plane. The Vietnamese, meanwhile, charged Iran \$400 million for 20-year-old battle-worn American tanks and planes.

Iran and Iraq can now shop around in relative leisure. Less urgency, analysts agree, will lower prices. Expect a steeper decline if the U.S. relaxes its embargo, as many of its European allies hope. The British and Italians are eager to sell again to Iran and Iraq. Other Middle East states, in a spiraling response to the threat posed

Living by the sword

During eight years of carnage in the Persian Gulf, the two warring sides spent \$27 billion on major weapons from at least 53 nations. Arms merchants in China, Brazil and Egypt were especially dependent on sales to the combatants. Their exports will suffer most if the cease-fire holds.

Arms deliveries (Billions of 1985 US dollars)

\$12 11 10 9 8 7 6 5 4 3 2 1 0

Arms deliveries to Iraq*

To Iran*

USSR
France
China
Egypt
Brazil
Czech.
Jordan
Poland
N. Korea
UK
US

* Figures include deliveries of major weapons through 7/31/88, including black market sales and captured weapons. These figures exclude small arms, ammunition, support systems, spare parts, technical assistance and training.

Source: Stockholm International Peace Research Institute

Arab Christi

An Iraqi Mirage fires an Exocet missile
"Neither side believes in the peace."

Sigma



by rearming in Iran and Iraq, will likely step up their own purchases of advanced weaponry.

While the market will remain strong, competition in the arms export business is heating up. Real defense budgets are falling in the U.S. (by 7% since fiscal 1986) and in most other NATO countries. So arms manufacturers are looking to exports to maintain their volume of sales. Last year, according to the Stockholm International Peace Research Institute, major arms exports reached \$35 billion. Illicit black market trading and sales of guns and ammunition added another \$5 billion. The world's six top arms exporters—the Soviet Union, U.S., France, U.K., West Germany and China—provided almost 85% of total deliveries.

For the third year running, Soviet exports outpaced those of the U.S., but by a reduced margin. In 1987 General Dynamics, America's largest arms exporter, shipped a record 127 F-16 fighter aircraft. Price tag: about \$22 million each. Deliveries of Awacs early-warning aircraft, made by Boeing and Grumman, were also high last year. Other leading exporters are Raytheon, McDonnell Douglas and Hughes.

The U.S. is still the favored supplier of advanced-technology weapons. The biggest restraint on exports continues to be Congress, which, by denying arms to many countries, drives them into the arms of price-gougers.

Twice in 1987 Congress thwarted the White House's proposed sale of American planes and missiles to the Saudis. Incensed, the Saudis bought British.

In Europe, ideology less frequently interferes with business. The \$10 billion Saudi deal, encouraged by Prime Minister Thatcher's persuasive salesmanship, won plaudits in Britain. Two of Europe's neutrals, Switzerland and Sweden, also sold a record amount last year. The Swedes, who love to think of themselves as peace-lovers and peacekeepers, were tarred by a series of arms scandals last year, including the disclosure of boat and explosives sales to Iran and bribe payments by armsmaker Bofors to win contracts to sell artillery to India.

Two countries that most need the foreign exchange from the arms trade, however, face declining prospects.

China, offering basic weapons built to outdated Soviet specifications, was Iran's main supplier. It sold \$3 billion in arms—impartially to both sides—in the Persian Gulf conflict. "The Chinese are the new supplier of last resort to warring countries," says a British Ministry of Defense official. "Peace in the Gulf should be disastrous for their business."

The Soviets' total volume of sales remained high last year, but they are increasingly dependent on a declining number of bulk-purchase customers. Fully 25% of the Soviet Union's exports in 1987 were to client states Angola, Afghanistan and Iraq. These countries' weapons imports, if the various cease-fires hold, will wither. The Soviets' main weapons client, India, did its expensive high-technology shopping in Britain, France and Holland last year.

The quality and reliability of Soviet weapons remain suspect. Soviet artillery shells and troop transports performed poorly in the Gulf War. More damaging for Soviet prestige, however, has been the Soviets' inability to produce a surveillance plane to counter the U.S. Awacs. To move merchandise, the Soviets must rely on generous Kremlin financing: 20-year loans at a concessionary 5% interest rate to most buyers.

For the moment, the prospects for peace are bright. But not yet are the nations of the world ready to beat their swords into plowshares. ■



Iraqi soldiers display captured Iranian weapons

The Iran-Iraq conflict created a new group of suppliers.

Pavlovsky/Sigma

Like other utilities across the country, Los Angeles' Pacific Enterprises is rapidly diversifying. But to what end?

Haywire

By John Heins

NO LONGER CONTENT to earn from their local monopolies whatever regulators allow, electric and gas utilities these days are buying savings and loans, insurance companies, even satellite television networks. In the biggest deal yet, Houston Industries Inc., parent of Houston Lighting & Power, agreed in August to pay \$1.27 billion to buy the U.S. cable television properties of Canada's Rogers Communications Inc.

Does all this buying make sense? No—or, at the very least, not yet—in the case of \$5.4 billion (sales) Pacific Enterprises, Los Angeles-based parent of Southern California Gas Co. Since January, Pacific has spent nearly \$700 million to buy a Dallas-based oil and gas company, a drugstore operator in Seattle, 6.8 million barrels of proven oil reserves in Texas and two midwestern sporting goods chains. Adding these purchases to existing operations in retailing—from the 1986 purchase of Thrifty Corp.—and oil and gas production, Pacific should get around half its revenues this year outside the utility business, one of the highest percentages in the industry.

no mystery

about why Pacific is in a rush to diversify. Its Socal Gas subsidiary is the largest gas distribution utility in the country, serving 4.3 million customers in California and earning some \$400 million a year in operating income. But customer growth in recent years has slowed to only 2.2% a year.



Pacific Enterprises' James Ukropina and Paul Miller
Shareholders are still waiting.

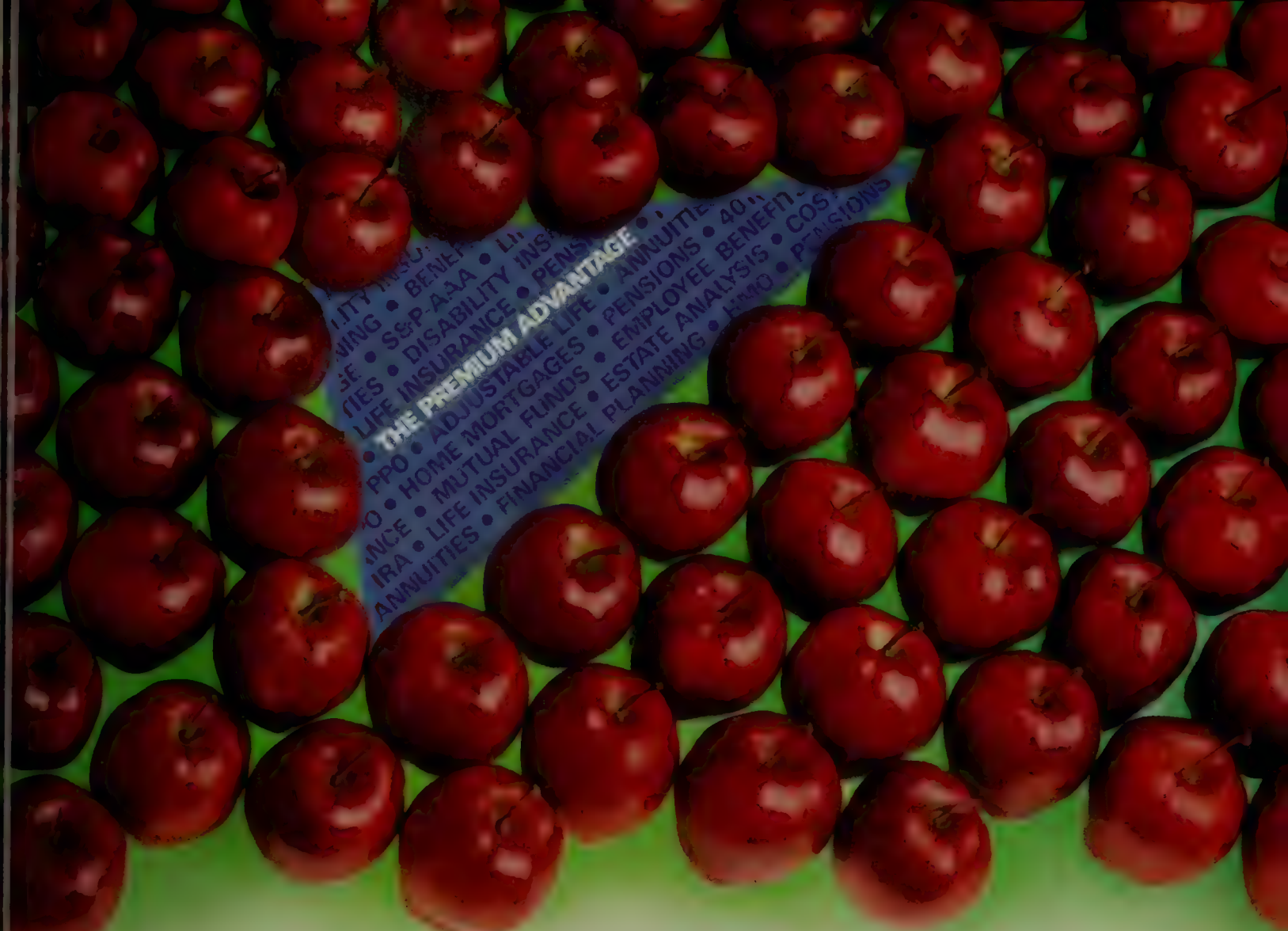
Regulators are getting tougher: Last December California's Public Utilities Commission cut Pacific's authorized return on equity from 13.9% to 12.75%. To grow, and to deploy the still-considerable excess cash thrown off from the utility, Pacific must look elsewhere. "Our primary goal is to build value for our shareholders," boomed Chairman Paul Miller, 63, at an analysts' meeting earlier this year.

A fine sentiment. But why not return Pacific's excess cash to shareholders in the form of big dividends or stock buybacks? Miller, a grandson of the company's founder and Pacific's chief executive for 20 years, declined to be interviewed. But he seems to be saying that he and his heir apparent, President James Ukropina, can find more productive uses for Pacific's cash flow than shareholders themselves can.

Can he? So far, the success of Pacific's nonutility efforts is decidedly mixed. Its oil and gas operations, greatly expanded through an acquisition in 1983, suffered a \$227 million pretax writedown in 1986 as oil and gas prices fell, causing reported corporate earnings to plunge 65%. But at least that business has recovered somewhat, last year earning \$35 million, 15% of Pacific's total profits, on only 3% of revenues.

Then there's Thrifty, bought two years ago for nearly \$900 million. The company, which now operates nearly 1,000 drug- and sporting goods stores, mainly in the western U.S., has been opening new stores at a rapid clip. Profits are growing, but margins are still meager as discount drugstores and supermarket chains go after larger shares of the maturing drugstore business. Thrifty's earnings grew 23% last year, to nearly \$40 million, on a sales gain of 19%, to \$1.8 billion. But on 35% of Pacific's sales, Thrifty earned only 18% of profits.

How have other utilities done on forays outside regulated areas? Those with more modest plans, such as Southern California Edison, have registered consis-



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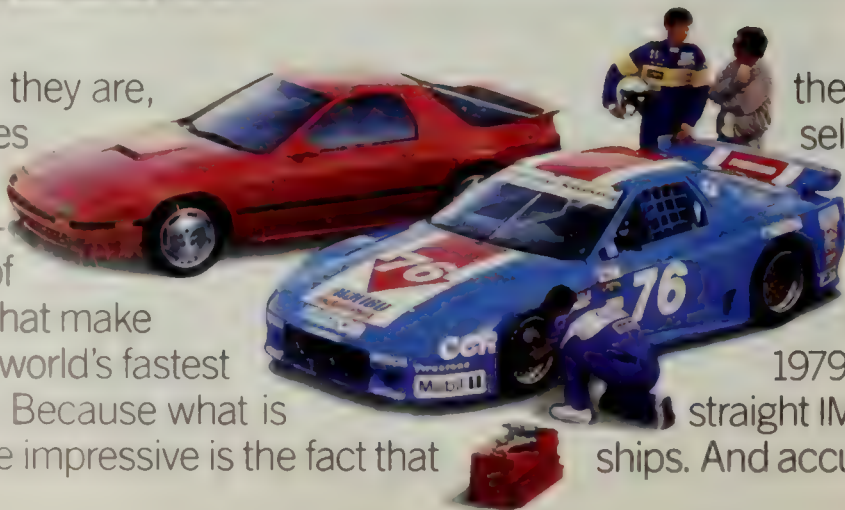
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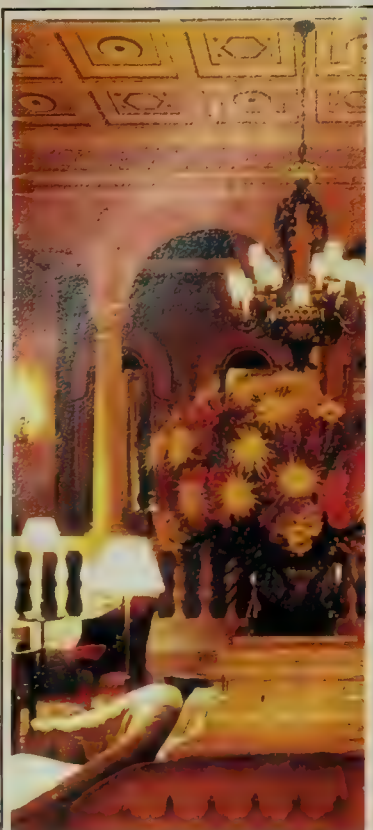
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tent earnings gains from nonutility operations. But the more aggressive, such as Illinois' Nicor Inc., Texas' Entex, Florida's FPL Group, Arizona's Pinnacle West Capital, among several others, have suffered losses or sharp earnings setbacks brought on by troubles at nonutility ventures. Nicor, parent of Northern Illinois Gas, lost a total of \$334 million in 1984 and 1985 because of disastrous ventures into coal, contract drilling and barge hauling. "It's easy to assume that because you're good at running one business, you'll be good at running another," says Richard Cline, Nicor's chairman. "That isn't necessarily so."

Pacific's Miller is not one for the cautious approach. His April purchase of oil and gas producer Sabine Corp., for \$339 million, is a major bet that currently sluggish energy prices will rebound strongly. Sabine lost \$7.5 million on sales of \$69 million last year, but Miller sees long-term value

All this diversification has yet to build value for shareholders. While the market has gained 19% since the crash, Pacific shares haven't budged.

in the company's large oil and gas reserves and undeveloped acreage. For that, he paid top dollar. He outbid a competing suitor for Sabine, Presidio Oil Co., by some \$60 million.

Miller's \$234 million purchase of the assets of Pay'n Save Inc., completed in June, is also risky. Pay'n Save operates some 150 drug- and general merchandise stores, mostly in the Pacific Northwest. The chain has been floundering after several ill-conceived merchandising changes—moving away from drugs into closeout general merchandise, for example—but Miller figures new capital and strong management controls from Pacific will help turn things around. Miller is generally considered to have gotten the Pay'n Save stores at a good price, but regaining lost ground, especially in the cutthroat drugstore business, won't be easy.

All this activity has yet to build value for shareholders. Pacific's earnings per share peaked at \$5.02 in 1983. Now, seriously diluted by new shares issued for acquisitions, per-share earnings will probably be around \$3.50 this year, barely covering the dividend. Dividends, unchanged since 1986, won't be raised anytime soon. While the market has gained 19% since last year's crash, Pacific shares, at around 45½, haven't budged. ■

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Alexander Proudfoot

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In Canton, Ohio, the heart of the Rust Belt, where dozens of factories stand empty, Timken is hiring again. Here's why.

"You do the job or you're dead"

Timken Co. Chairman W.R. Timken Jr.

Behind the turn-of-the-century facade, a high-technology company.



By Ralph King Jr.

IN HIS CANTON, OHIO office, W.R. (Tim) Timken Jr. is reverently running his fingers along a tapered roller bearing. It consists of two concentric steel rings that spin smoothly on a row of cylindrical rollers between them. That deceptively simple bearing, invented by Chairman Timken's great-grandfather in 1898, is possibly the most exhaustively engineered piece of machinery in the U.S. today.

Tapered bearings are heavy-duty versions of ball bearings and are found in everything from automobile gearboxes to space shuttle landing gear. They sell at wholesale for as little as \$2 apiece, and the Timken Co. makes

what are widely regarded as the best in the world. Ninety years after their invention, tapered bearings remain the foundation product for this superbly managed \$1.2 billion (1987 sales) manufacturing enterprise.

By relentlessly improving and finding new uses for its bearings, Timken has not just survived but has held tightly to a 60% share or more of the U.S. market against unrelenting competition, not only from U.S. companies like Ingersoll-Rand but also from such foreign giants as SKF of Sweden and NTN of Japan.

The price of holding this strong market share has been the sacrifice of certain short-term price advantages and a constant attention to technology. Hundreds of design refinements,

many invisible to the naked eye, and cleaner alloy steels explain why a Timken bearing that can carry 16,000 pounds is one-sixth the cost, one-third the weight, sustains one-quarter the friction, and lasts four times longer than one made 50 years ago.

"In a mechanical world, bearings are at the heart of the work equation. There is no way to replace them," says Timken, 49, a soft-spoken Harvard business school graduate who replaced his father as chairman 13 years ago and is the fourth generation of his family to run the company. "In a future that's energy-constrained, the less friction and the less weight in items, the less energy you use."

Don't let the company's blackened smokestacks and aging brick factories fool you. Behind the turn-of-the-century facade is a high-technology company. Timken's research and development spending, roughly 3% of sales, is on a par with such technology powerhouses as General Electric, TRW and General Dynamics. Nearly one-third of Timken's salaried staff have technical jobs. Even most of its 400 salespeople have engineering degrees.

Three years ago Timken opened its latest manufacturing facility, a \$450 million specialty steel plant that continues to be the most technologically advanced in the world. The plant is the key not only to a dependable supply of raw material for bearings—ever since World War I steel shortages, the company has been vertically integrated—but also to constant improvements in the raw material itself.

Timken's technological strengths and dedication to its product line did not, however, insulate the company from the industrial recession that swept this country in the early Eighties, when an overpriced dollar created a flood of industrial imports. In 1981 Timken's sales peaked at \$1.4 billion. The company showed red ink in 14 of the past 24 quarters, and earnings last year were a paltry 0.8% of sales, representing a return of 1.1% on stockholders' equity.

Yet, though manufacturers all around it diversified into faddish businesses and shuffled and reshuffled their capital structures and product lines, Timken stuck to what it knew best: bearings and specialty steel (excess steel output accounts for some 30% of net sales).

"You don't develop the same will to succeed if you're not focused," says Timken. He himself is the very image of a focused person: At age 42 he trained for seven months in his spare time, then swam the English Channel in a six-man relay team. "We wanted

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to give it the natural roll that makes buttondowns what they are.

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to break the record for people over 40. I like to push myself," he says.

Applying this same attitude toward his business, he says: "If you're focused, and your back is to the wall, it's not quite as difficult to come to the right answers. You do the job or you're dead."

So despite tough times, Timken listened not to Wall Street but to its customers, most of whom turn out to be manufacturing companies in their own right. Timken salespeople are trained to pick the brains of a customer's product development engineers first, and take orders second. This way customized Timken bearings are often incorporated directly into new machine design and thus cannot readily be replaced by a competitor's.

One customer, Volkswagen, needed bearings small and tough enough for the gearbox of its soon-to-be-introduced Passat model. It took Timken engineers four years to design such a bearing and build machines able to churn them out at low cost. Now Timken has a leg up on the market. New truck and aircraft applications are showing similar promise.

Service and quality alone don't sell bearings in a competitive world marketplace. It takes patience—or call it focus. In 1987, after 12 years of trying, Timken landed big orders in Japan, from Nissan and Mazda. Faced with unrealistic pricing by competitors, Timken has also brought antidumping suits worldwide. Just last fall the U.S. imposed duties on tapered bearings imported from six nations, including Italy and Japan.

One solid reason for Timken's ability to focus its efforts and ride out bad times is the fact that it is in many ways a family company. The Timken family and insiders hold roughly 25% of the stock, and pride themselves on taking the long view.

They also pride themselves on working for more than just money. Back in 1937 muckraker Ferdinand Lundberg wrote that the Timkens were among the 25 richest families in America. Today the family's Timken Co. stock is worth about \$200 million (recent stock price: 31 1/8), and the family does not even rank in *FORBES'* annual survey of America's 400 richest people. "It has not been a preoccupation of members of my family to make lots of money," says Timken, who paid himself a mere \$308,000 last year, less than he did in 1980. "Moreover, to my knowledge, my family has never sold a share of our stock."

Wall Streeters complain that Timken is run like a private company, with management providing little in-

formation beyond what the Securities & Exchange Commission requires. Thus most analysts ignore the company. But the public shareholders haven't done all that badly: Assuming dividend reinvestment, the stock is up 277% in the last 15 years. This is behind the 390% gain the S&P 500 has shown on the same basis, but it's not bad, considering the kind of company Timken is and the tremendous foreign competition it faces.

And while Timken's low-debt capital structure would look wasteful to junk bond empire-builders, it has enabled the company to keep an even keel during hard times and to continue to take a long-term point of view. Its debt is only 17% of equity.

Aware that foreign competition remains a problem and that the dollar can go up as well as down, Timken hasn't taken big price increases now that capacity industrywide is strained. Though its gross margins are a somewhat weak 24% of revenues, Timken feels that price-gouging eventually drives away customers. "We want to be in a business that will be here 20, 30, 40 years from now," says Timken. "It's not in the shareholders' long-term interest to maximize prof-

its in the short term."

With this disciplined approach to pricing, Timken's focused management efforts are beginning to pay off again. Unlike some of Canton's other big employers, who closed plants and left town, Timken is hiring again. In the last year it increased its manufacturing payroll by 10%.

Sales should hit \$1.6 billion this year, and earnings \$2.50 per share (adjusted for a recent 2-for-1 split), up from a meager 39 cents in 1987. Next year should be even better.

Those who think this kind of long-sighted family ownership is good for American business can take heart. A fifth generation of Timkens is coming along. Tim's son, Henry, 25, is working at a Timken division in France.

Sitting in the small, glass-enclosed office once occupied by Henry's grandfather, Tim Timken shifts uneasily in his armchair as the conversation moves to talk of a dynasty. He turns to the window, beyond which stretch brick buildings, shade trees, and in the distance, a waving American flag, and he says, "It's the Timken Co. people who make the place run, not us. We're just the current custodians of the chairs." ■

It couldn't be done, but private enterprise is close to achieving that ancient dream of a tunnel under the English Channel. Is there a lesson here for us Americans?

Public good through private enterprise

By Richard C. Morais

PRIVATE ENTERPRISE will soon accomplish what Napoleon Bonaparte and countless others failed to do: Build a tunnel connecting Britain with the European continent. In about 18 months two laser-guided tunnel-boring machines should meet about 40 meters under the Channel seabed—and Britain's ancient isolation will be ended.

In March 1986 Prime Minister Margaret Thatcher and French President François Mitterrand awarded to a ten-

company Anglo-French consortium a 55-year right to build and operate a channel tunnel. The consortium founded Eurotunnel, and has raised \$10.2 billion to complete the project.

Eurotunnel isn't an underground highway but a 31-mile twin rail tunnel that will run between terminals near Folkestone in the U.K. and Calais in France. Cars loaded on specially designed shuttles, which will run every 12 minutes during peak demand, will be whisked across the great divide in some 30 minutes.

Eurotunnel almost collapsed in the

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Eurotunnel construction 40 meters beneath the English Channel
"Investors will either make a fortune or lose their shirts."

fall of 1986 when it tried to privately place \$340 million in equity with institutions. The French accepted their allotment lamblike, but the British side turned rowdy. Only heavy arm-twisting by the Bank of England finally convinced British institutions to kick in. Eurotunnel's British cochairman resigned after the rumpus and was replaced by R. Alastair Morton, the former chairman of the investment bank Guinness Peat Group.

Morton shares the top spot with his urbane French cochairman, André Bénard, formerly managing director of Royal Dutch/Shell Group. They renegotiated banking, railway and construction agreements, getting the French and British railways to guarantee the project fees of at least \$183 million a year for 12 years. The construction companies that founded Eurotunnel, meanwhile, have agreed to pay 30% of the cost overruns up to 6% of the total construction cost. Even the banks were forced to loosen up, incorporating a workable letter-of-credit into the credit facility so Eurotunnel had more financing options at its disposal.

Eurotunnel figures the total price for the tunnel—including construction, net financing costs and a provision for inflation—will be \$8.3 billion. Adding in an additional margin for unexpected surprises, Morton and

Bénard decided they needed to raise \$10.2 billion.

Off to New York, Tokyo and Paris they went. In June of 1987, 198 banks worldwide, including the Bank of China, Citibank and the Bank of Tokyo, finally agreed to underwrite an \$8.5 billion credit agreement. Their one caveat: Eurotunnel had to raise the remaining \$1.7 billion in equity.

No small matter, that. Eurotunnel launched a \$1.3 billion equity offering some 25 days after last October's crash. (It already had \$425 million in equity from founders and European institutions.) "We had to persuade people that because a Eurotunnel unit [one share and warrant for \$6] was a discounted representation of a future income stream, it had nothing to do with present market conditions," says Morton.

To help push the deal, Eurotunnel also resorted to a little marketing fluff. Investors were promised two free shuttle trips a year for 55 years if they purchased \$6,000 worth of shares. It worked. The public took 80% of the offering, leaving the underwriters, including S.G. Warburg and Banque Nationale de Paris, holding only 20%. All things considered, a remarkable achievement.

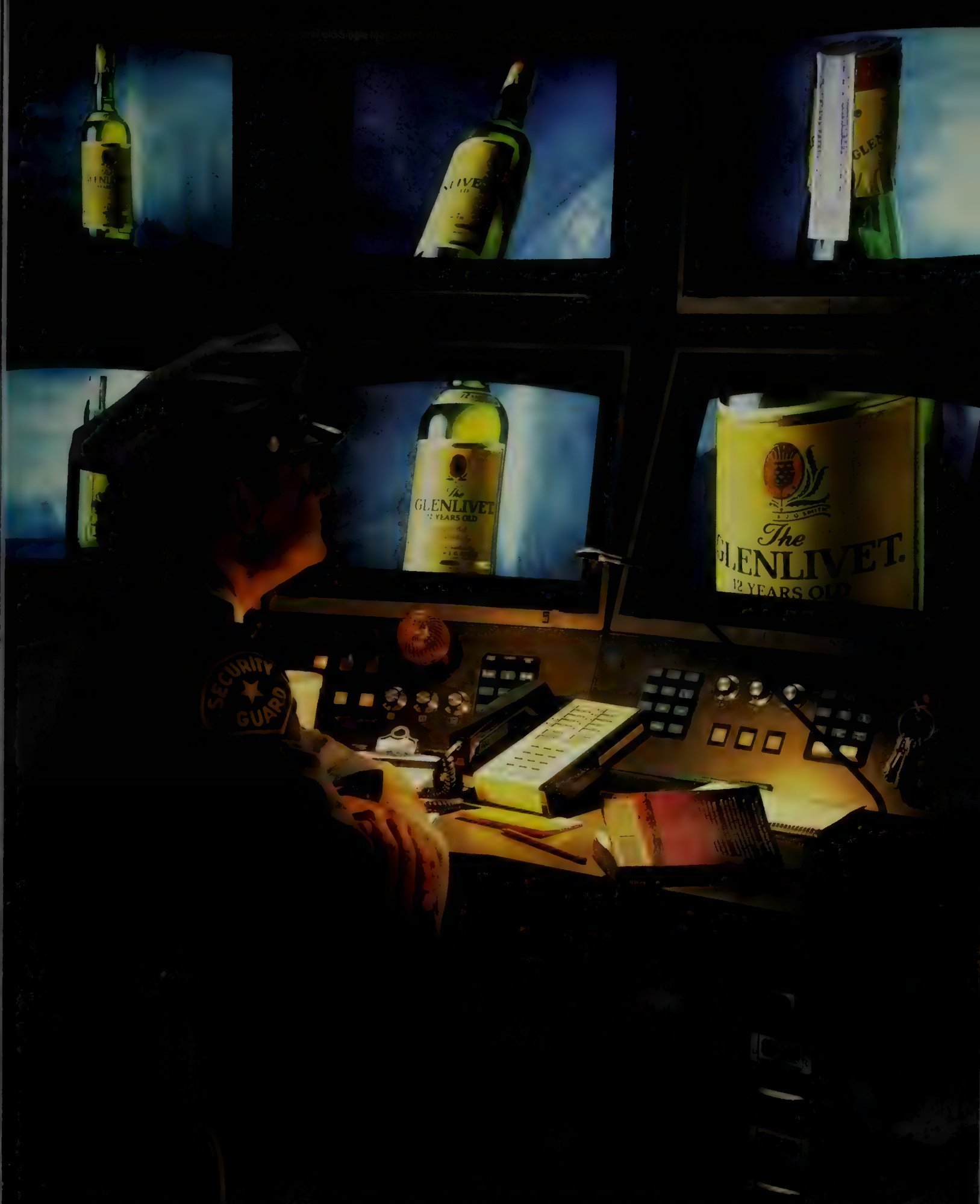
Last October, France decided to build a billion-dollar high-speed rail line from north of Paris to Eurotun-

nel. That means a train traveling up to 185 kilometers an hour will take passengers from downtown London to downtown Paris in only 3 hours. Result: Trains can compete with planes on time and price, and probably save passengers a lot of hassle.

If the revenue projections are even close and if there are no bad construction delays, the investors may have gotten themselves a pretty good deal. With operating costs expected to come to only 19% of revenues after its planned opening in 1993, Eurotunnel should become a giant cash machine once up and running. The company figures pretax profits will jump from \$120 million in 1993 to \$720 million five years later. The company expects to capture 44% of the cross-channel traffic the first year of operation.

But the ifs remain. So far there is a small delay on the tunnel's French side, but digging is not dangerously behind—yet. "It's going to be all or nothing," says Richard Hannah, an analyst with Phillips & Drew. "Investors will either make a fortune or lose their shirts." But either way, the public of the two nations stands to gain immensely.

Watching the situation unfold, an American is struck with a thought: If the Europeans can harness private enterprise to improve its infrastructure, why can't the U.S.? ■



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Insurance companies are always looking for ways to lay off risk. Here's a deal that lays the risk off on junk bond holders.

Heads we win ...

By Jack Willoughby

A 15% ANNUAL RETURN on bonds underwritten by Goldman, Sachs & Co.? Yep. These nine-year notes, issued publicly this summer by Underwriters Re Corp., are among the first in what is likely to become a new wave of insurance-backed junk bond offerings.

Why the superhigh yields? To match the high degree of risk. A growing number of insurance companies want to reduce their risks as the highly cyclical property/casualty business prepares to enter a down phase. One way to do so is to get rid of these risks via leveraged buyouts.

The Goldman, Sachs-Underwriters

deal began last year. In a leveraged buyout, the \$13 billion (assets) New York-based Continental Insurance Co. spun off a subsidiary, Underwriters Re, an outfit that reinsures for Continental and other companies. To pay Continental for the subsidiary, Goldman raised \$160 million by selling notes and put in \$12 million of its own as equity capital.

The deal was cut three ways: Goldman and Continental would own 46% of the equity apiece, and Underwriters Re management would get 8%; the management team was headed by President Steven Newman, 45, a graduate of Maurice Greenberg's top-notch team at AIG.

In the current stage of the deal,

Goldman is offering \$160 million in high-yield bonds to the public to repay the notes. The public debt issue will leave a highly leveraged capital structure—about nine parts debt to one part equity, according to Moody's Investors Service. Just paying interest on the new bonds will take \$24 million a year.

Underwriters' Newman says that Underwriters has more than enough resources to make the payments. Among those resources: a \$630 million portfolio of AA-rated bonds yielding \$55 million in annual investment income. Says Newman, "We've got something that works even if we do nothing."

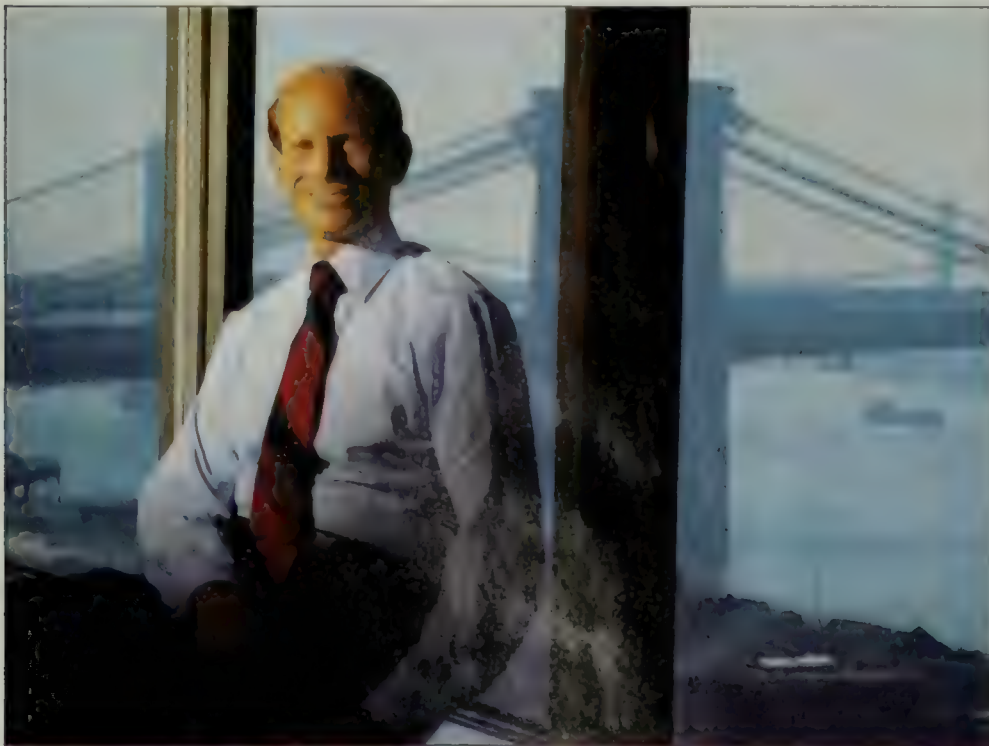
True, but Newman is assuming that there will be no big unforeseen losses—in a wacky lawsuit, for example. Multimillion-dollar settlements in liability lawsuits have left reserves deficient in many well-capitalized property/casualty companies, and when that happens, the reinsurance companies that stand behind them inevitably get hit, too.

Underwriters has purchased \$200 million in reinsurance from its former parent, Continental, to hedge against the possibility of unexpected future claims. But one never knows: In an era when a redneck Texas jury can despoil Texaco of \$3 billion, anything can happen in the courts.

If the operating company, Underwriters Reinsurance, takes a massive hit or hits that dissipate its reserves, what recourse will bondholders of the holding company have? None. The only collateral behind the new bonds is the common stock of the reinsurance company. Underwriters Reinsurance is chartered in New Hampshire. If Underwriters gets into trouble, state regulators are empowered to—and no doubt will—prevent the subsidiary from paying dividends to the holding company parent. The parent, in turn, wouldn't be able to make its payments on the bonds.

Now you know why the bonds carry a 15% coupon when most junk bonds go at 13%. If the risks evaporate, however, won't the holders be sitting pretty with that nice premium yield? Don't count on it. Within four years Underwriters Re can redeem the bonds for a 5% premium to their face value. All in all, it looks like a paltry reward to the bondholders for carrying a risky startup through its formative years.

Nevertheless, the bonds were all sold. Here's a prediction: A good many other insurance companies will soon be trying to cut risk on the same basis. ■



Underwriters Re President Steven Newman

"Something that works even if we do nothing."

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Everyone knows what Velcro, the product, does. But only the controlling stockholder in Velcro Industries knows for sure why the stock price is so low.

Some call it greed

By Fleming Meeks

IN THE BEGINNING was the button. Then came the zipper. And then came Velcro. The ubiquitous "touch fastener" was invented about 40 years ago by Swiss engineer George deMestral. He based the idea on his observation, after a walk in the woods, of the way cockleburs stuck to the fur of his hunting dogs. But while the product (which not only fastens jackets and running shoes but also holds together the pumping chambers of the Symbion Total artificial heart and parts of the NASA space shuttle) is well known, Velcro Industries N.V., the parent of its principal manufacturer, is a cipher. There isn't even a telephone listing for Velcro at the Netherlands Antilles address listed on the company's annual report. (Although there is one for the executive offices, in Manchester, N.H.)

First incorporated in Canada in 1957, Velcro Industries was a highflier in U.S. over-the-counter trading in the 1960s. In 1967, with sales of about \$10 million, Velcro's stock hit 81 a share, giving it a market value of over \$250 million. But in the early 1970s the stock crashed back to earth at 5 a share. Around that time, Britisher C. Humphrey Cripps, now 73 and Velcro's chairman, began buying up the company's shares through a holding company now known as Cohere Ltd., which is registered in the Channel Islands.

To date, Cohere—which is said to be a beneficial trust for the Cripps family as well as for

Cambridge and Nottingham universities—has acquired more than 1.7 million of Velcro's 3 million outstanding shares. And Cohere has filed its intention to buy another 365,700 shares on the open market this year. That would bring its holdings to nearly 70% of the outstanding shares. It would be a dull stockholder indeed who, at this stage of the game, could still wonder, "Whose company is it

anyway?" The Crippses—sons Robert and Edward also sit on the 8-person board—appear to have been running it as if it were all their own for years.

For one thing, notes Irwin Silverberg, an analyst with Silberberg, Rosenthal & Co., the company seems to do all it can to keep the stock price down: Goodwill is written off immediately, plant and equipment are depreciated as quickly as possible, and explanations about earnings information are often slow in coming. For instance, for the fourth quarter of 1987, Velcro announced earnings of 1 cent, as compared with 37 cents in the fourth quarter of 1986. Weeks later, after the stock had taken a dive, the company explained that the drop in earnings was caused by the discontinuance of manufacturing operations in the Netherlands. Says a former Velcro officer (who would not speak on the record): "The general attitude was, don't tell anyone any more than you absolutely must."

Consequently, despite sales growth averaging nearly 13% annually over the past six years, and about a 50% share of the world market (the basic patents expired in 1978), Velcro's stock recently traded at 13¾. That's a slim 3.6 times estimated 1988 cash flow of \$3.78 per share on revenues of \$93 million (the fiscal year ends Sept. 30). What's more, Velcro's board recently announced it was suspending the stock's 92-cent dividend "for the foreseeable future" to finance rehabilitation of plant and equipment—this, despite the company's \$39 million cash cushion. That's the way to play it if you're an insider trying to pick up the remaining stock at the lowest possible price.

Silas Spengler, a New Yorker who sits on Velcro's board and serves as a company attorney, denies there is any conflict of interest on the part of Cripps or Cohere. Some outsiders are not reassured. Grouses one money manager who has closed out most of his Velcro position after holding the stock for 12 years: "Anybody who passes the dividend when they're making money and buys the stock ought to be arrested."

Chairman Cripps is known for cheerful giving to schools, hospitals and churches in Northampton. In the 1960s the Cripps Foundation, set up by the family, gave St. John's College at Cambridge University £1 million, at the time believed



Velcro's C. Humphrey Cripps and wife Dorothea
What's the former High Sheriff up to?



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ESTES
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M 6-12,13,14,15
W 6-12,13

SUMMIT
Brown or Black
N 9-12,13
M 5-12,13,14,15
W 6-12,13

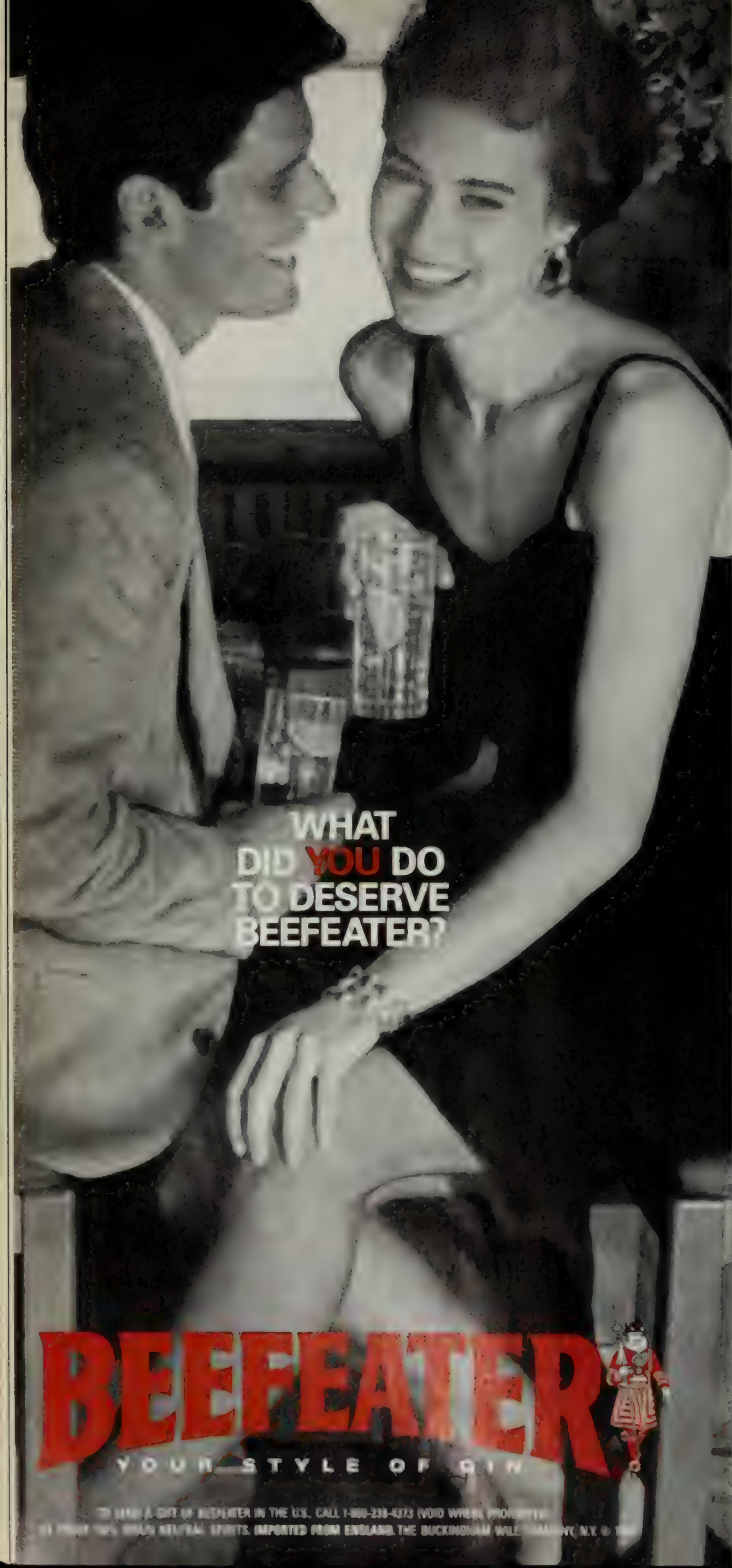
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to be the largest benefaction ever received by a British college. Such is the high regard for him that he served a term as High Sheriff of Northamptonshire, a ceremonial post dating to the 10th century. The post was once held by his father, Cyril Cripps, a cockney who rose to knighthood. He drives an aging Rover, when not being chauffeured in his Rolls-Royce.

As a businessman, though, Cripps is extraordinarily secretive. The family fortune initially rested on Pianoforte Supplies Ltd., founded by his father in 1919 to manufacture iron piano frames. It now employs some 600 people in Northamptonshire, making metal and molded plastic trim for the automobile industry. In addition to Pianoforte, the Cripps family is said to own other manufacturing companies through Chartwell

Says a former Velcro officer (who would not speak on the record): "The general attitude was, don't tell anyone any more than you absolutely must."

Industries, an Australian-based holding company registered in Bermuda. One such is Silcraft, a car component manufacturer in Australia.

Other family holdings are said to include sheep stations and wool processing operations in Australia, as well as Prospect Reef, a resort hotel on Tortola in the British Virgin Islands. With the exception of Velcro, all of their holdings are very private.

And private seems to be where Velcro Industries is headed, albeit on the cheap. Book value of the company alone is \$17.40 a share, 27% above the current stock price. Dennis Moran, an analyst with A.G. Edwards, thinks this book value surely understates current value. Says Moran: "Everything possible in this company has been written off." He thinks the stock is worth 10 to 12 times cash flow, or \$38 to \$45 a share.

Most money managers, however, seem to have given up hope of seeing anything like that. In the last year alone institutional holdings of Velcro have dropped from 17% to 3%. Most, but not all. Dan Cronin, president of Northbridge Management, a Boston-based investment firm, still owns 15,000 Velcro shares and is betting there may still be an upside. "At some point," he reasons, "you'd think that they'd pay what it's worth." After a pause, he adds, "How greedy can you be?" For the philanthropic former High Sheriff of Northamptonshire, the answer remains to be seen. ■

Ravi Batra is back, claiming he foresaw the 1987 crash and predicting an even worse one in a year or so. Unlike Batra, we can't tell you how to survive Armageddon, but we can tell you how to save \$18.95.

Where has his guru gone?

By Peter Brimelow

IF YOU THINK Ravi Batra looks uneasy in the accompanying picture, you're right. The Indian-born economics professor at Southern Methodist University in Dallas suspects that *FORBES* is going to be as nasty about his new book, *Surviving The Great Depression of 1990* (Simon & Schuster, \$18.95), as about his previous megabestseller, *The Great Depression of 1990* ("Awful, appalling, no redeeming features whatever," Sept. 7, 1987). And he's right. We found the latest Batra barrage awful, appalling—and dull.

Its redeeming feature, which unfortunately also slows it down fatally, is a long, plodding description of elementary personal finance, which will be of interest to people who don't know what bonds and NOW accounts are. No doubt to make room for this worthy service, Batra has virtually eliminated all mention of *Laws of Social Cycles*, *Eras of Warriors*, *Ages of Acquisitors* and all the other colorful features that made his earlier work so much more entertaining than that of your average economist.

Particularly to be regretted is the complete absence of Prabhat Ranjan Sarkar, whom Batra described in his earlier book as "a leading scholar from India" and credited with inspiring his work. This description hardly did Sarkar justice. *FORBES* found out that he is the leader of a Hindu cult called Ananda Margá, which has been accused of arson, child abduction, hijacking, perversion and international terrorism; Sarkar himself was sentenced to life imprisonment in 1976 in connection with the murder of disciples, although he was subsequently released on technical grounds. Alas, Batra provides no more news of this fascinating fellow.



Professor Ravi Batra
The "final crash" is delayed.

Not everything has changed, however. Simon & Schuster still blurbs shamelessly that Batra "is widely acclaimed as one of the top trade theorists in the world," although *FORBES* also found last year that top trade theorists have barely heard of him. Batra is still said to have been ranked 3rd in a group of 46 "superstar" economists by the learned journal *Economic Inquiry*, although the article in question merely discussed which economics department published how many learned articles, regardless of quality, with no names mentioned.

"Most people were shocked by the stock market crash of October 1987," says Simon & Schuster. "Not Professor Batra." This is almost certainly literally true. Batra was not shocked because he is unshockable (as well as unshameable.) His relationship to reality is essentially mystical, centering on the conviction that whatever happens, he is always right. Thus he claims his earlier book "implicitly anticipated" last October's stock market crash, although in fact it explicitly predicted that the bull market would continue until late 1989. (Incredibly,

the evidence Batra has cited for his claim to prescience is one sentence: "The stock market will continue to rise, but its total percentage gain by the end of 1987 may not be as strong as its gain in 1986.")

Batra now appears to have abandoned his earlier prediction of a continued bull market in 1988 and early 1989—implicitly, of course—although he leaves an escape clause. He says that "the final crash" will not occur until 1989 or 1990 but recommends readers stay away from stocks because they are in a "volatile phase."

The fundamental assumption underlying Batra's advice is that the U.S. will relive its Depression experience exactly. Survival is thus a simple matter of mechanically repeating what worked best in the deflationary 1930s. Batra even suggests that garage mechanics and college professors will again be relatively unscathed, although both job categories were much smaller and just beginning their enormous secular expansion 60 years ago. More generally, he says everyone should set aside a \$44,000 cash cushion, put 20% of his remaining assets in gold bullion and the rest in bonds. Batra adds, rather unexpectedly, that this posture will also be proof against "an inflationary depression," although this seems debatable.

Batra's explanation for this impending depression has now virtually merged with conventional wisdom. Indeed, the sources upon which he depends are almost entirely contemporary journalism, with the press of the world financial center of Dallas particularly well represented. Reaganomics is the culprit, and only the careful reader will note that the U.S. deficit is not particularly exceptional by the standards of the developed world.

Batra is peculiarly fixated on the alleged increasing concentration of wealth. He contrives to blame it for both the U.S. dollar's pre-1985 strength and for the trade deficit. As evidence, he cites the record number of billionaires (49) in last year's *Forbes Four Hundred*, saying that in the prior 200 years "the economy produced only 14"—the number in the 1985 *Four Hundred*. Which ignores (a) inflation; (b) the stock market surge, helping, and subsequently hurting, families controlling public companies; (c) the appreciation also enjoyed by nonbillionaire stockholders.

Batra's prescription: a confiscatory wealth tax, not just on American millionaires, but also on U.S. allies—2% of Japan's GNP, for example. Maybe that's where the hijacking and international terrorism comes in. ■

EQUIPMENT LEASING: Stronger Than Ever

by Harvey Shapiro

The delivery vans cruising the streets of Chicago say Sears, Roebuck, but they're really owned by Ryder Truck Rental Inc., which leases them to Sears. The drivers' uniforms say Sears, too, but the drivers are also employed by Ryder, not Sears. It's all part of a full service lease that Ryder provides to the nation's largest retailer.

At Sears, "there's an increased emphasis on productivity and cost control," says Douglas M. Slack, senior vice president of Ryder Truck Rental Inc. of Miami. And leasing is helping to meet those objectives, not only at Sears, Roebuck, but at thousands of businesses and government agencies throughout the nation.

Leasing financed more than \$90.6 billion of equipment in 1987, and the U.S. Department of Commerce is predicting a 10.2% increase in 1988, a growth rate one

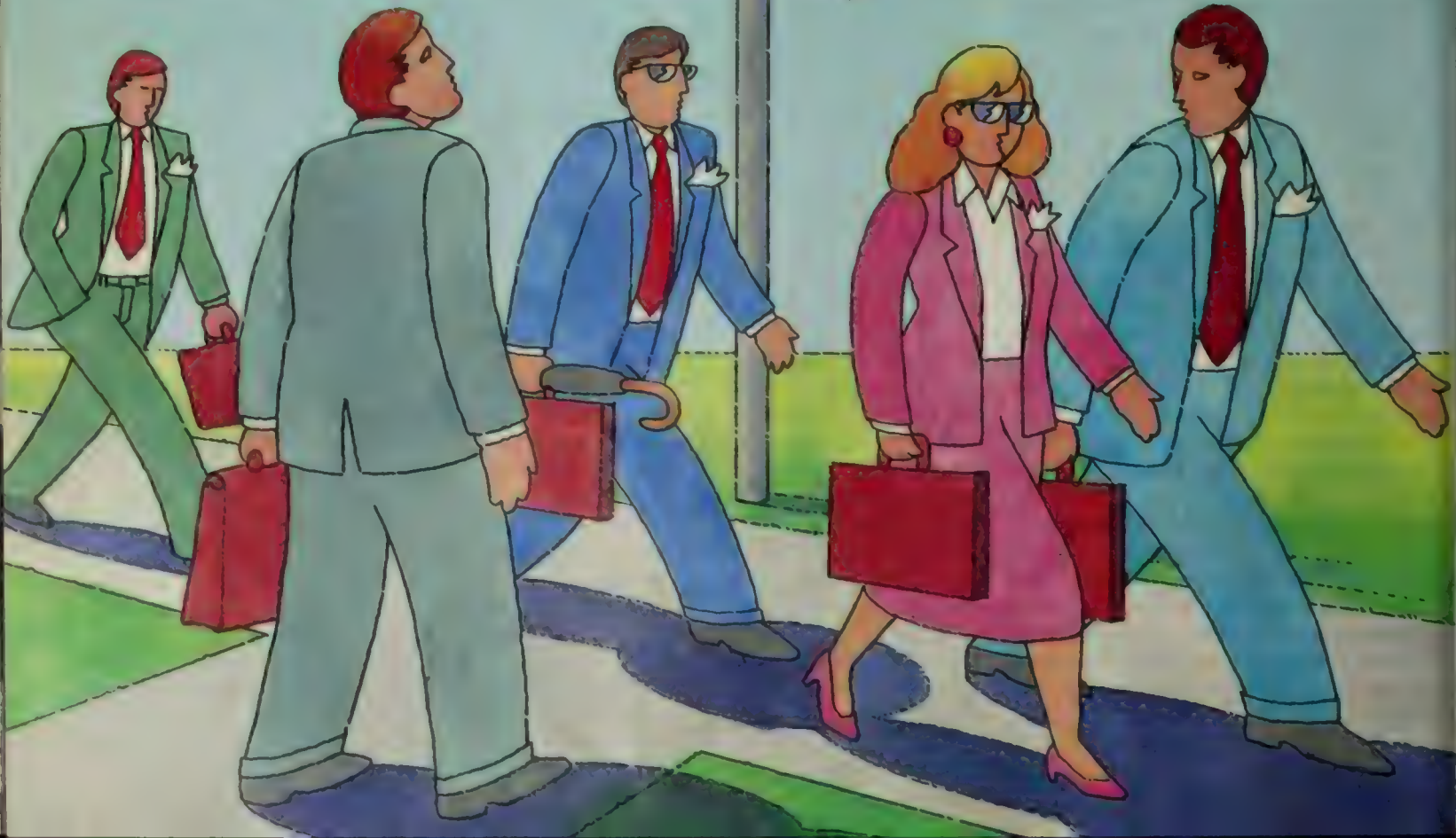
and a half times the anticipated increase in business investment in new equipment. Leasing now provides the funds for about a third of the externally financed capital equipment purchased in the U.S.

The tax reform legislation enacted in the fall of 1986 caused some worrying about the leasing industry because one of its features was the transfer of tax benefits. But William Montgomery says "the leasing industry is faring very well." Montgomery, who is chairman of the American Association of Equipment Lessors and president of Xerox Credit Corp., adds, "Despite the doomsayers, 1987 was a good

year for the industry, and 1988 is also proving to be a good year."

The 1986 tax reform legislation ended the investment tax credit and stretched out depreciation, reducing the tax benefits that could be traded to a lessor in return for a lower cost in acquiring equipment. But the legislation also introduced the Alternative Minimum Tax, which limited the amount of depreciation a company could deduct from its income in calculating taxes. Thus, there are still tax benefits that a company may not be able to use for itself but which it can transfer via leasing.

In any case, the strength of the equipment leasing industry despite the changes in tax laws suggests "there are clearly substantial economic attractions to leasing beyond tax benefits," notes Thomas Wajnert, president and chief executive officer of AT&T Credit Corp. One of the attractions of leasing is 100% financing: Assets can be acquired with no money down and low monthly payments. Moreover,





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EQUIPMENT LEASING: Stronger Than Ever

lease terms can be closely matched to the useful life of the asset. Leasing is also one of the few remaining sources of fixed rate financing. And a lessee may be able to expense lease payments rather than carry them as a liability, so a company can preserve borrowing capacity and maintain debt-equity ratios.

In addition to the financial benefits, leasing also permits users of high technology to shift the risk of obsolescence to a leasing company. Operating leases also let equipment users shift servicing and maintenance tasks to lessors, so they can focus on managing their central business activities.

While these attractions have existed for many years, William Roch, executive vice president of CSA Financial Corp. in Boston, adds, "One recent development which has helped leasing has been the wave of corporate restructurings, acquisitions, and LBOs. Companies are redeploying assets and this has tended to change planning horizons. There is more of a tendency to want a little bit more flexibility than they had in the past." And leasing helps provide that flexibility.

**"There are clearly
substantial economic
attractions to leasing
beyond tax benefits."**

The value of leasing is not only reflected in its rapid growth but also in its diffusion throughout the economy. Indeed, eight out of ten U.S. companies lease equipment. Amid this broad range of uses, however, "right now, transportation, especially aircraft, is a very hot market," says Wajnert.

Airline passenger volume is expected to double over the next two decades and, as a result, about \$250 billion will be needed to purchase new aircraft. Another \$150 billion will be needed to finance

second-hand purchases as airlines reconfigure their fleets in response to changing route structures. Many airlines don't have the ready cash or the borrowing capacity equal to their aircraft needs. But aircraft are attractive to lessors because jet planes have a long life, a ready market for resale, and a significant residual value. For many years, a substantial portion of airline fleets around the world have been leased, and indications are that the massive financial needs of the next two decades will be met with a heavy dose of leasing.

**"One recent development
which has helped leasing
has been the wave of
corporate restructurings,
acquisitions, and LBOs."**

Airlines aren't the only transportation mode to use leasing extensively. Nearly 20% of the nation's commercial truck fleet is leased or rented. That adds up to nearly 1.2 million vehicles, including about a third of all heavy duty trucks. Moreover, in 1986, leasing financed two-thirds of all business fleets of ten or more automobiles.

"Alternative energy projects are also an active leasing area," Wajnert says. Cogeneration, the technique of simultaneously producing electricity and thermal energy, has become a \$2 billion business providing more than 3% of the nation's electricity largely because of leasing: Traditional borrowing based on measures of creditworthiness weren't applicable to small developers of large cogeneration projects, but leasing techniques have financed the growth of this alternative.

"There is more interest in turnkey projects beyond energy," Wajnert adds. In July, for example, Diamond-Star Motors, a joint venture of Chrysler Corp. and Mitsubishi Motors Corp. announced a \$505.6 million leveraged lease financing for

an automobile manufacturing facility in Normal, Ill.

Similarly, the new Lake Superior Paper Industries' coated paper plant in Duluth, Minn. had barely come on stream last year when its owners, Minnesota Power & Light and Pentair Inc., sold it for \$38.5 million. Lake Superior Paper Industries President Ronald Kelly says the sale and leaseback "will allow us to become profitable sooner, so it gives us greater financing flexibility to expand our business."

In addition to leasing new facilities, existing ones can be sold and leased back as a way of financing other activities. Moreover, Steve Gagne, president and chief operating officer of Dana Commercial Credit Corp. in Troy, Mich., says "Computers and telecommunications equipment still remain very active leasing markets." And CSA's Roch sees "a lot more interest in the engineering area. Workstations are becoming more and more expensive, so people don't just want to write a check for it."

Overall, a Commerce Department survey last year found, "Lease activity in 1986, for the most part, corresponded to growth patterns in capital equipment investments." And Xerox Credit's Montgomery, says that the prime determinant of leasing's growth is now the strength of the economy and the growth of capital spending.

There are, however, important changes occurring in the structure of leasing transactions. Roch says, "Many lessors have become more residual oriented, and remarketing is becoming more and more important." While the rates of many leases once reflected the cost of the equipment minus the value of tax benefits to be transferred from the lessee to the lessor, now the price often depends on the lessor's assumptions regarding its residual value—what it will be worth when it comes off lease and the lessor tries to remarket it.

"People are building in higher residual values in their calculations to hold down lease rates," Rick Rodgers notes. But, Rodgers, the

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head of marketing for the BankAmeriLease Group in San Francisco adds, "later on they have to be able to sell the asset at that price." Gauging the residual value properly requires a thorough grasp of the marketplace for equipment. As a result, says Dana's Gagne, "We're really in the equipment business. We've got to remarket it to get our profit out of it." One consequence of this emphasis on resale value, according to Wajnert of AT&T, is that "there is a growing specialization of lessors in various categories of equipment. People are being forced to become experts in various categories of equipment."

**"Lease activity in 1986,
 for the most part,
 corresponded to growth
 patterns in capital
 equipment investments."**

At BankAmeriLease, for example, Rodgers says, "We have the largest and most experienced staff in the country for the appraisal and selling of assets when they come off lease. This is now a service we've begun to offer other lessors and we're getting a great reception."

As the leasing market changes, the structure of the industry is changing as well. Equipment leasing is a diverse industry composed of companies of all sizes and specialties. The American Association of Equipment Lessors has more than a thousand corporate members. Some of the consumer goods companies that created leasing subsidiaries to shelter income from taxes have lost their appetite for leasing. Ownership of the four largest automobile rental firms also changed hands during 1987.

Further changes are expected because the Financial Accounting Standards Board is requiring corporate financial statements to consolidate the results of all subsidiaries in which a company holds a

majority interest, including financial service subsidiaries. This rule, which takes effect for fiscal years ending after December 15, 1988, means "some companies may re-examine their commitment to having a captive finance company," says Montgomery, in order to avoid adverse balance sheet consequences.

While some may be backing away from leasing, however, others are getting in. Most notably, in the fall of 1987 Ford Motor Co. bought U.S. Leasing for \$512 million, extending Ford's commitment to financial services. "The total fund available for investment in leasing continues to increase each year," according to Rodgers, "but there has been constant movement in and out by individual companies. In the aggregate, however, the trend has been toward consolidation in the equipment leasing industry as bigger companies buy up smaller ones.

The upshot of this consolidation is intensive competition in all segments of equipment leasing, and, as a result, Gagne says, "You have to start looking very closely at how you differentiate yourself from everybody else. What you see now is a lot of companies focusing on the quality of the service they provide."

Competition is also forcing leasing companies to shoulder bigger risks. Of course, it's precisely because lessors shoulder those kinds of risks that equipment users are willing to pay lessors. The attractions of leasing as a financing mechanism and as a risk transfer mechanism, with or without tax benefits, has enabled the equipment leasing industry to record year after year of growth. "Leasing has found ways to reprice and restructure deals to stay competitive," says Montgomery, "and as a result, I don't see any negatives for the foreseeable future. I'm very bullish, and I think most people in our industry are as well." ■

This supplement was written by Harvey Shapiro, a New York-based freelance writer.

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Merchandisers

One hopes Colorado Prime's John Masciandaro treats his customers better than he treats his fellow shareholders.

High overhead

By Matthew Schiffrin

In APRIL, around a month after Dolores and Richard Ryan moved into their new home in Fairfield, Conn., a well-dressed salesman came to their door. He had an attractive proposition: For around \$1,000—typically paid in monthly installments—the salesman's company would deliver and pack their freezer with enough meat, poultry, seafood and other frozen foodstuffs to feed the Ryan clan for about six months. The Ryans bit.

"With a new baby and a toddler, I was just thrilled to see him," recalls Dolores Ryan, 32, a vice president of a Stamford, Conn.-based marketing firm. "I hate shopping, and now I only go out for diapers and milk."

The frozen food salesman was from Farmingdale, N.Y.-based Colorado Prime Corp., which is doing a brisk business selling convenience to two-income families like the Ryans. Working from 44 offices in 14 states, Colorado Prime's 450 salespeople offer families about 350 choices of prime meat and poultry, as well as such trendy items as swordfish steaks, lobster tails, spinach quiche and New York-style cheesecake.

Cheap? No. Items are sold on a per-meal basis—a box of chicken cordon bleu serves four—rather than by the pound. As a result, most products are priced at retail-plus, 20% or so higher than at the local supermarket. But a lot of customers figure that the saving of their time, their comfort and of the gasoline it takes to get to a supermarket makes the extra cost a bargain.

While closing on their marked-up food packages, Colorado Prime's

salespeople have a terrific follow-on opportunity. "Say, madam," asks the salesman, "where are you going to store this food? You don't have a stand-alone freezer? I see. . ."

Fortunately, says the salesman, Colorado Prime also sells name-brand

paid only on commission, it costs the company only \$25,000 to open an office of eight salesmen and sixteen telemarketing people. Moreover, Colorado Prime claims its sales force has a 50% success rate on cold calls, and avers that around 85% of the firm's customers reorder.

On revenues for fiscal 1987 of \$84.5 million, Colorado Prime earned \$3.68 million, about 95 cents a share. Prudential-Bache analyst Linda Baker estimates that revenues this year will hit \$93 million, with gross margins of around 47%.

Colorado Prime has a lot going for it, including demographics, high margins and low capital costs. One thing it doesn't have going for it is a smart stock price. Colorado Prime's 4.9 million Amex-listed shares (of which 1.6 million are in public hands) recently traded at 10¾. That's 10% below their June 1987 initial public offering price, and just over nine times this year's likely earnings. And, in spite of the excellent business, the low stock price may well be justified.

The market's mediocre opinion of Colorado Prime probably traces to the company's high-living chairman, president and controlling shareholder,

Jeffrey Vock



Colorado Prime's John Masciandaro

"We are not here to appease Wall Street."

freezers—as well as microwave ovens, cutlery and Wedgwood china, often on installment plans. These nonfood items provide Colorado Prime even juicier margins than the frozen foods.

Like its cousin, the door-to-door encyclopedia sales business, Colorado Prime's frozen food and white goods operation enjoys low overhead and low capital requirements. Because its salesmen make home visits and are

40-year-old John Masciandaro. Masciandaro's father, John Sr., a butcher, started the company in 1960. In December 1986, young Masciandaro purchased Colorado Prime from his father and other investors through a leveraged buyout transaction that loaded the small company with \$42 million in debt.

In June 1987, with negative equity, Masciandaro changed course and

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Does it work? It works so well some insurers now offer lower premiums to restaurants and bars whose servers take the course. So well that in one town where most establishments participated, drunken driving arrests were *halved* in just one year.

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raised \$18.6 million by selling one-third of the company to the public; the deal was underwritten by Dillon, Read and Prudential-Bache.

Colorado Prime may be a public company, but young Masciandro treats it as if it were still his private company. Last year Masciandro paid himself a salary of \$626,200, plus \$300,000 for an agreement whereby he promises not to go into competition against his own company—plus over \$1 million worth of stock options. The company provides him with a red Ferrari. Papa Masciandro, who runs the firm's Florida opera-

tions, also got a fancy car from the company, plus about \$1.3 million in cash (including an \$870,000 lump-sum pension payment).

In good part because of the lavish perks, only a small part of the gross profit ever comes down to the bottom line: Colorado Prime's net margins are below 4.5% of revenues, in sharp contrast to those gross margins of nearly 50%.

Tanned and enjoying his new wealth, Masciandro isn't overexerting himself. He feels no need to add more than six new offices per year, although he has penetrated only 14

states, mostly on the East Coast.

What of all the new copycat firms that have popped up and are after Colorado Prime's business? Sniffs Masciandro: "I haven't seen much real competition. We will grow at our own leisurely pace."

Nor does he offer any apologies for the cushy salary and perks his public shareholders are helping to provide. "Our philosophy is still that of a private business," says Masciandro. "We are not here to appease Wall Street." But, it seems to us, he has no reluctance about using Wall Street to suck in public money. ■

The Up & Comers

Lessons

In the mid-1970s a young surfer ate a paper doily and Quiksilver, Inc. was born. Today its young owners are making lots of money. More to the point, they're still having lots of fun.

Do what you wanna do

By Gail Buchalter

WHEN Robert B. McKnight—Pasadena born and bred—collected his bachelor's degree in business from the University of Southern California in 1976, he didn't send out any job applications. He followed his first love, surfing. He grabbed his surf board, a few pairs of shorts, and hit the beaches on the north shore of Oahu, Hawaii.

In Hawaii, McKnight renewed his friendship with Jeffrey Hakman, an international surfing champion. Both young men wanted to start a business that would finance their endless summers. They decided to go after the licensing rights for Quiksilver, a six-year-old company based in Torquay, Australia. Founded by surfers, Quiksilver produced boardshorts, swim-suits that were tight-fitting, had velcro fly snaps, and were much in vogue among the surf set.

"I thought I could make a few bucks and stay near the beach and

party," says McKnight, now 35. "I never thought the business would fail; I just didn't expect it to get so big so quickly."

Last year McKnight's Quiksilver, Inc., based in Costa Mesa, Calif., earned \$2.4 million on sales of \$30 million. This year, says McKnight, sales should hit \$45 million; earnings, \$3.7 million, or about 60 cents per share. The company has become a full-fledged activewear manufacturer, producing not only boardshorts (18% of sales) but T shirts (15%), shirts (11%), pants (12%), fleece wear (9%), walking shorts (27%), jackets (4%) and surfing accessories (4%).

Young McKnight and Hakman originally won the U.S. rights to the Quiksilver name in what can only be described as a unique way. In April 1976 Hakman entered a surfing competition in Australia. There he met Quiksilver's owners, Alan Greene and John Law. Hackman won the event and sat up all night eating and drinking champagne with Greene and Law.

The Aussies agreed to give the young Americans the licensing rights for the U.S. on one condition—that Hakman eat the large paper doily under his plate. Okay, so this isn't how they do things at General Motors. Hakman ate the doily, the surfers shook hands, and Hakman telephoned McKnight back on Oahu. Doilies, but no figures, had been discussed. That was McKnight's job as the brains of the operation. He, after all, was the college business major.

McKnight's offer to Quiksilver: no money up front and a royalty of 1% of sales for three years, which then jumped to 3%, and an additional 1% to support international promotions. The Aussies accepted.

McKnight returned to California and asked his father, a sporting goods importer, to lend him \$20,000 to start Quiksilver. McKnight's father gave him the cash, and some good advice: Go easy on the borrowing, maintain an excellent credit rating, and expand slowly, in familiar waters. Even today Quiksilver has no long-term debt against its \$14 million in equity.

For the first season, the summer of 1976, McKnight and Hakman bought some fabric on credit, manufactured 600 pairs of boardshorts, and peddled them to three surf shops in southern California. Their product was priced higher than similar products from competitors Ocean Pacific and Hang Ten. But the colorful and comfortable Quiksilver boardshorts sold out in nine days. These first three retail outlets are still Quiksilver clients, in addition to 2,000 other stores nationwide. Department stores account for 40% of Quiksilver's sales; specialty shops, the rest.

Within a few years, the active beachwear industry was awash with



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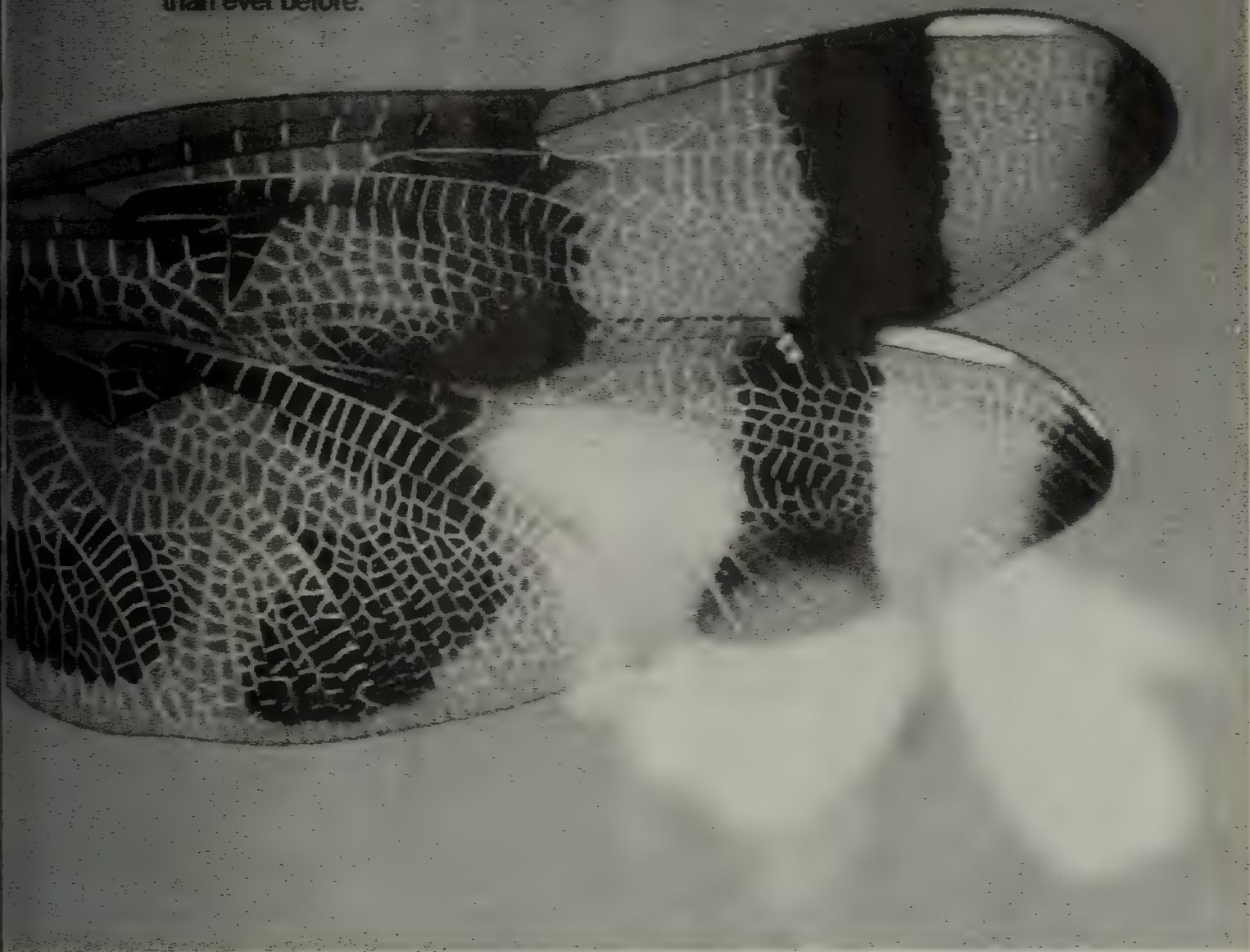
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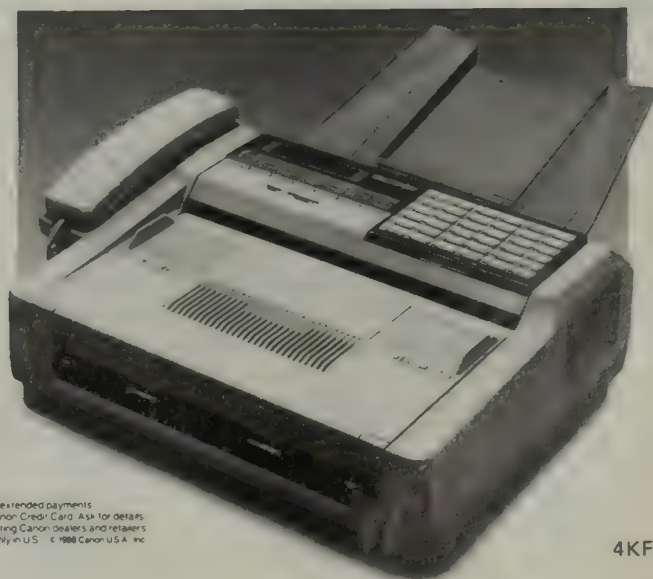
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Quiksilver Inc.'s (from left) Warner, McKnight, and executives Hunt, Kwock, Crowe
If things work out, they'll be rich. If not, they'll be happy.

competitors. But by then, Quiksilver was firmly established. Competitor and onetime highflier Maui & Sons, for example, ran into trouble with its cash flow and inventory, filed for Chapter 11 and has now restructured its organization. Jimmy's grew too fast, ran out of money and sold out. Quiksilver's owners kept their operations lean and stayed with what they knew and loved.

"While everyone else was making swimwear, we were setting the standard for surfwear," says McKnight. "We've been successful because our philosophy has always been to bring the image off the beach and into the stores. Since we were all surfers, we knew what kids wanted."

By December 1986, sales were up to \$19 million and the stock market was receptive to little companies like Quiksilver. So McKnight and his minority partners sold 50% of the company to the public for \$16 million. They used the money to buy the Quiksilver trademark for the U.S. and Mexico, pay off all short- and long-term debts and expand their line and production runs.

All along McKnight has enjoyed good advice from Robert Kirby, chairman of the board of Capital Guardian Trust Co., with \$15 billion under

management. Kirby, who is on Quiksilver's board, watched most of Quiksilver's executive officers grow up with his own stepson.

"At first I thought they were just crazy surfers," laughs Kirby, "but now I wish I had thought of something like this. So far their biggest problem has been when the employees mysteriously disappear because they've all gone surfing."

"This is obviously a risky business," Kirby adds, "but we have public accountants going over the books on a frequent basis, and if they do guess wrong on a [clothing] line, which is probably inevitable, you just try to make sure it won't be big enough to be significant."

To keep things in line, McKnight brought in John Warner, who was then the senior vice president and general merchandising manager of May Department Stores' Denver operation, and made him head of Quiksilver's sales in July 1987. Seven months later Warner became chairman of the board and chief executive.

At 41 Warner is Quiksilver's oldest executive, though, wearing shorts and thongs, he looks very much like any other of Quiksilver's 200 employees. McKnight is still Quiksilver's president, and owns 10% of the company's

stock (worth \$3.7 million, at the recent price of around \$6 a share). He now oversees new product development. Other insiders own another 38% of the company.

"We still tend to run the company by committee," says Warner. "They [McKnight and his surfing buddies] know what the customer wants, and I know how to get it to him. But we're still \$100 million in sales away from losing this family feeling."

Hakman? In 1981 he tired of California and amicably split with McKnight to surf in Australia. He now lives in Biarritz, and owns a share of the Quiksilver rights in France.

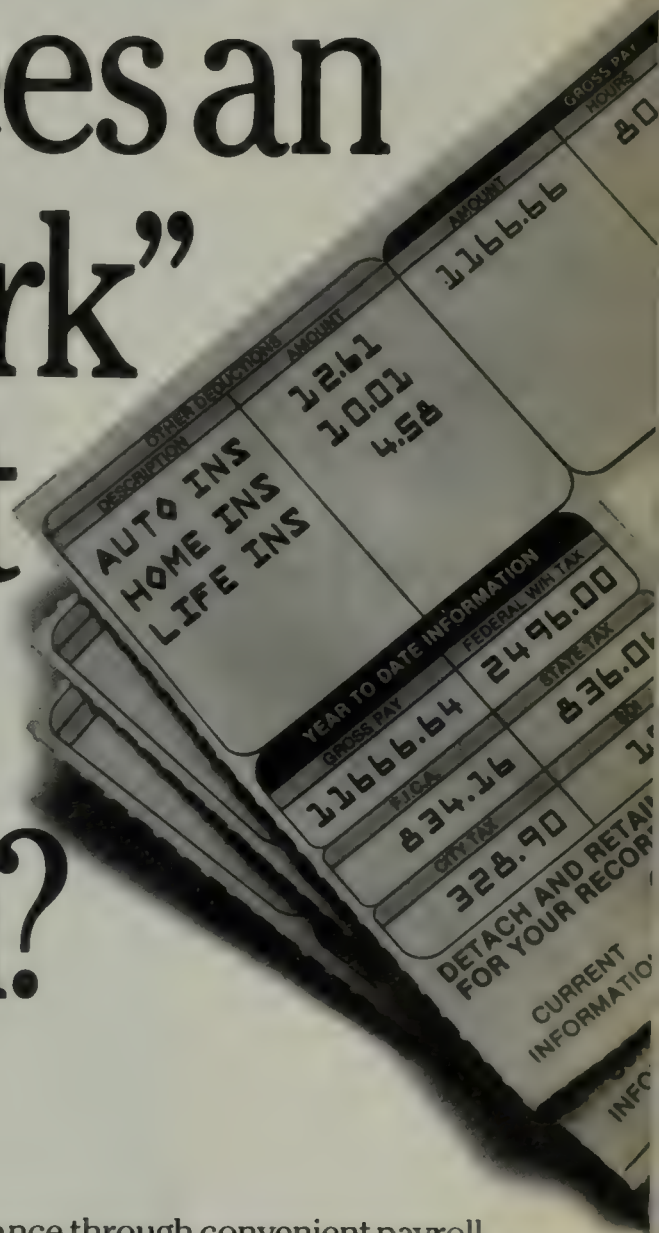
McKnight is now moving Quiksilver into skiwear, where Hakman's French operation has recently done very well. McKnight's skiwear strategy is the same as when he and Hakman started out in surfwear: Quiksilver came up with six designs this year, and marketed the ap-

parel at popular ski areas. They sold out in five weeks, grossing nearly \$500,000, meeting their projection.

Quiksilver plans to promote its ski line as it has its surfwear—by dressing the local hotshots. Quiksilver provides free surfwear to 1,000 kids worldwide who also appear (for free) in Quiksilver ads. For a select group of more experienced surfers, Quiksilver gives clothing plus \$1,000 a year for travel and surfing competition entry fees. Quiksilver's A-team consists of ten professional surfers who wear the company's clothes and receive a monthly payment. This year McKnight signed Tom Carroll, the twice-world-champion surfer, to a \$1 million, exclusive five-year contract, the largest promotional fee ever paid in this sport.

In his excellent book, *The Corporate Steeplechase*, Sully Blotnick advised young people not to take a job just for the money or the prestige, but rather for the enjoyment of doing it. That way, if things work out, you'll be rich and happy. If things don't work out, you'll still be happy. Young Bob McKnight thinks that good advice is very much at the heart of his company's success. "Best of all, this business is still fun," he beams. "If I couldn't surf every day, I wouldn't be here." ■

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Tribune Co.'s recent growth has outstripped that of most other media companies. But future gains won't be as easy.

"It's a changing world"

By Steve Weiner

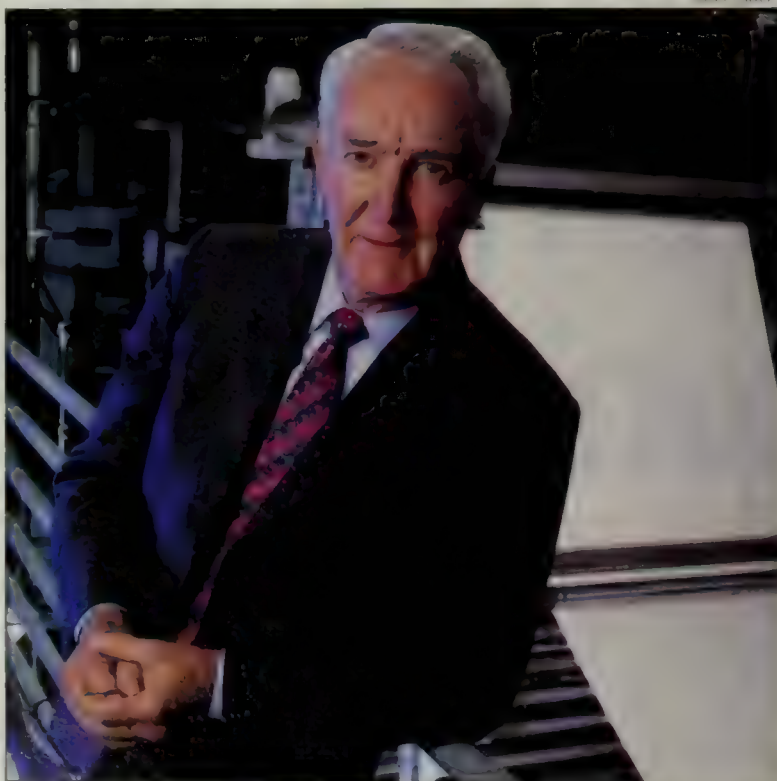
TRIBUNE Co., the \$2.3 billion (revenues) newspaper publisher, broadcaster and newsprint maker, is 141 years old, but lately it's been acting more like a kid than a codger.

Consider the slick way Chicago-based Tribune went about borrowing \$100 million a few months ago. Most companies draw on a bank line of credit, or place debt in U.S. or Eurodollar markets. But Tribune went to New Zealand, of all places, where interest rates hovered near 15%.

No blunder, says Lisa Featherer, assistant treasurer. Principal and interest for the five-year notes were covered by purchase of bargain-basement Kiwi-dollar futures contracts, using a Japanese bank as the intermediary. And because the money was deposited in Canada, for use by the Trib's Canadian paper mills, capital gains taxes on futures trading profits were much lower than they would have been in the U.S. Net borrowing cost, says Featherer, was 8.4%—a half point less than from traditional lenders.

"It's a great, big, changing world out there," sighs Stanton Cook, 62, the newspaper production engineer who became the Tribune Co.'s president and chief executive officer in 1974. Cook, conservative and plain-spoken, admits he doesn't fully understand such deals, but no matter. His financial staff does, and that's progress.

This fancy financing is only one small example of how the Tribune Co. has come into the modern world. Despite soft newspaper and broadcast markets, Tribune's recent growth has outstripped that of most other media companies. Excluding one-time charges, profits rose 15% last year, to \$163 million, or \$2.07 a share, and are



Tribune Co.'s Stanton Cook

"We were an underachiever."

up 47% through the first half of 1988. For the full year, profits should approach \$2.80 a share. Return on equity has improved by two points, to about 17%, since last year and may exceed 18% by year's end. That's almost identical to the returns of competitors like the New York Times Co. and Times Mirror Co.

While most newspaper stocks have

been flat to lower, Tribune shares trading recently near 36, are up 3 points from a year ago. Since 1983 when the company went public, its shares have appreciated at an annual average rate of 23%, about triple the industry gain.

Its newspapers include the New York *Daily News*, *Chicago Tribune* and strong dailies in Orlando and Fort Lauderdale, Fla., Escondido and Palo Alto, Calif., and Newport News, Va. Its six television stations include WPIX in New York, WGN (for "world's greatest newspaper") in Chicago and KTLA in Los Angeles.

Why the strong 1988 showing? Some of it is luck. Newsprint prices rose sharply just as the Trib's paper mills finished renovations that nearly doubled efficiency of some pulping processes. The company's newspapers in Orlando and Fort Lauderdale have been booming with Sunbelt growth.

But there's much more than luck at work here. A big swing in earnings comes from the *Daily News*, marginally profitable at best for years, which hopes to produce operating earnings this year of \$20 million—not much of a return on revenues of \$450 million but at least a step in the right direction. And changes in the whole corporation's structure, management and culture promise benefits for years to come.

Cook has spent more than \$2 billion since 1980 to rebuild plants and buy new businesses. "Our basic program has been to invest in ourselves," he says. "We looked at ourselves in the late 1970s and, frankly, we thought we were an underachiever. We didn't have the facilities or people to get the job done. Now we do." One statistic: For the last five years, Trib profits have increased an average of 23% a year, while revenues have risen a mere 9% a year.

The decision to take the company public five years ago forced an end to what might otherwise have become terminal lethargy. The Trib had little choice. The company needed money to grow, and it badly needed to modernize. Restless shareholders, meanwhile, most of them descendants of early editor Joseph Medill, wanted ways to cash out.

The big steps: Cook replaced managers at every major division. He

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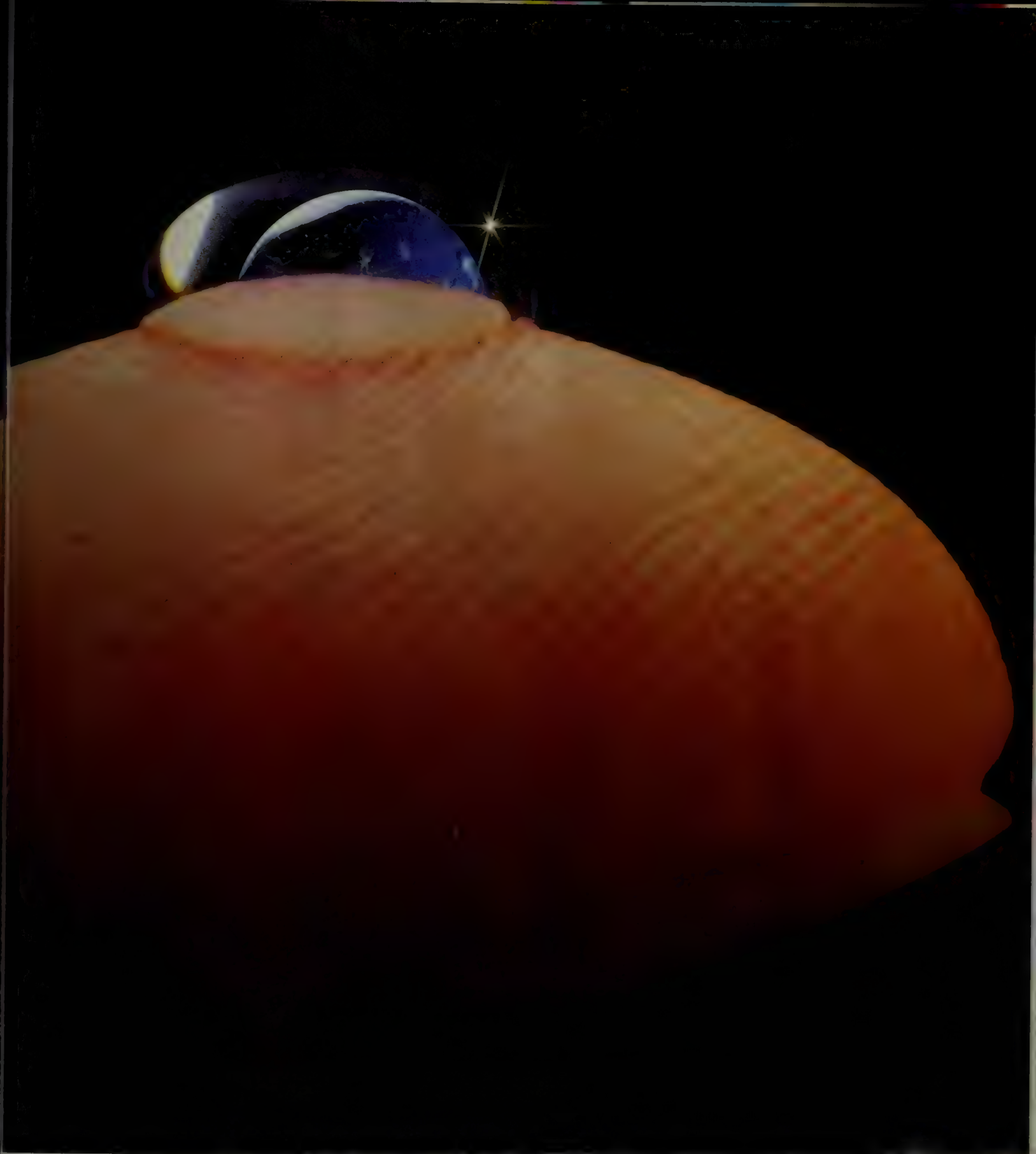
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Read all about it

The Tribune Co.'s problem child, the New York *Daily News*, looks healthier than it did a few years ago. Declines in circulation and advertising have been reversed; daily circulation is up a tick to about 1.3 million, and News advertising is up 8.3% this year, to a 12.5% share of the seven-newspaper metropolitan market.

The shabbiest of its facilities and archaic computer systems have been replaced at a cost of more than \$100 million since 1982. Advertising and marketing staffs have been retrained. As a result of all this, and \$27 million in union givebacks, costs have been sharply cut.

Even so, operating profit this year will be a flimsy 4% of revenues, compared with the average return at metro papers of 18% to 20%. On the strength of the improvements, however, Stanton Cook, president and chief executive officer of Tribune, and James Hoge, president of the *Daily News* since 1984, now say there's little doubt that they will build badly needed modern printing facilities. Likely cost: far more than \$200 million.

It's a big step. If it's borrowed capital, the interest cost would nearly wipe out this year's estimated pretax profit, not counting projected savings from a more efficient plant. And the News needs those savings and the capacity to put out papers faster, with more zoned editions and in color.

Much now depends on the ability of *News* president and publisher James Hoge, 52, former publisher of the *Chicago Sun-Times*, to extract further concessions from



Daily News' James Hoge
"We'll be among the survivors."

Bloomington's confirms it has greatly expanded its advertising there.

New York Newsday, an edition of the immensely profitable Long Island daily owned by Times Mirror Co., is coming up fast on the outside. From a modest beachhead in Queens and Brooklyn, it has built circulation to 180,000. Profitability remains years away, but *Newsday* has staying power. Among other things, it dented the *News* when it stole star columnist Jimmy Breslin, who turned down a deal worth nearly \$1 million over three years to jump ship.

Jim Hoge is well aware that his paper's troubles are not over. "There may not be room for all these tabloids," he vows, "but if not, the *Daily News* will be among the survivors."—S.W.

unions to make the new printing plant feasible. If he gets them, Hoge has a clean shot at fighting the competition, which is tougher than ever.

The *New York Times*, entrenched in the top end of the market, is beyond challenge. Hoge's immediate problems are the *New York Post* and *New York Newsday*, both tabloids.

The *New York Post*, owned since March by developer Peter Kalikow, has lately been making a better showing, having decided to downplay sex and violence. Its circulation is up to 600,000, and its losses have been cut in half, to less than \$7.5 million a year. The *Post* claims to have won long-term ad commitments from Bergdorf-Goodman and B. Altman.

closed the *Chicago Tribune's* old subterranean printing plant at Tribune Tower on Michigan Avenue and built a modern facility northwest of the Loop that can produce 21 different *Trib* versions at once. Productivity at that new plant has risen 50% since 1985. New presses were also installed for the Orlando paper and are going in at Fort Lauderdale. The newsprint division has overhauled most of its production process.

Cook also launched Tribune Entertainment Co., a TV programming and syndication outfit. He bought KTLA in 1985, paying a record \$529 million for that Los Angeles TV station. And to provide inexpensive, continuing programming for WGN radio and TV, he purchased the Chicago Cubs baseball team.

The resulting company is the fourth-largest newspaper publisher in

the U.S.—seven dailies with a combined circulation of nearly 2.8 million. The Tribune is also the fourth-largest TV group—six stations reaching 18.7% of all households. Its television "barter" division, with revenues of \$160 million in the sale of ads for non-network programs, is tops in that \$1 billion market.

Now that the needed restructuring is done, can the Tribune Co. continue to grow? Yes, but how fast depends on how Cook and his team handle some nettlesome problems. Take the broadcast group, producing 18% of revenue and 23% of profit. One of the six television stations—WGNO, New Orleans—is unprofitable, and nearly every station has lost viewers because of competition from cable and new independent TV stations. Profitability has slipped at the Trib's five radio stations, as it has elsewhere in radio.

To address these problems, many of them endemic to the businesses, Cook and James Dowdle, president of Tribune Broadcasting, have turned the company into a producer and syndicator as well, and that's where the big bucks will be made. Tribune Entertainment has a stable of about 15 programs. Highbrow the programs are not, but they are popular. They include the likes of *Geraldo*, the daytime talk show hosted by Geraldo Rivera; *Tales from the Darkside*, low-grade horror; *Ghostbusters* cartoons; and *Bouzer's New Year's Eve Special*, featuring a pop music character.

And then there is *Charles in Charge*, a second-tier sitcom canceled after just 22 episodes on CBS. In 1985 the Trib persuaded its producer, MCA, to make additional episodes specifically for the barter market. Participating stations show it for free and collect

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income from the sale of about half the advertising. The Trib sells the remaining time to national advertisers, partially paying for the new production costs.

This season, with 100 episodes now in inventory, *Charles* goes into syndication. Perhaps 100 stations will buy five-year rights to it. Each episode may thus draw \$1 million in revenues. MCA takes the majority share. The Trib may clear \$35 million, almost all of it profit. That alone is equal to the first-half operating profit of the entire broadcast division. What's more, its six stations air the program at half price. And Tribune collected fees on the sale of the bartered national advertising.

Growth may be harder to wring from the newspaper business (62% of revenue, 59% of profit), where some of the biggest improvements have been made already. The biggest possibilities for improvement are at the New York *Daily News*, where major investments since 1982 and a new relationship with unions have made the paper marginally profitable. But the *News*, with its too-high production and distribution costs, faces an uphill fight (see box, p. 92).

A better growth prospect is the flagship paper itself, the *Chicago Tribune*, where advertising is up a tad and cir-

culation (750,000 daily, 1.1 million Sunday) is in slight decline. With top managers mostly from the Orlando newspaper, Chicago Trib President Charles Brumback has already boosted operating margins to near 17%, from below 6% in 1982. He says 20% is achievable. No small goal, that. Operating margins are 17% at the *New York Times*; Los Angeles-based *Times Mirror* gets margins approaching 19% from its newspapers.

For the last five years, Trib profits have increased an average of 23% a year, while revenues have risen a mere 9% a year.

Much of the Trib's gain came from cost cutting; the full-time equivalent work force is down 25%, to 3,600. Brumback believes a work force of 3,000 FTE's is attainable. But further profit gains will have to come from better market penetration: The Trib is read in only 30% of Chicago households, fewer than half the level of the Florida papers. Brumback plans a marketing program to keep better track of customers and reward subscribers who renew. Circulation has been hurt by a price increase, to 35 cents a copy

from 25 cents, but Brumback figures he'll recover as a new distribution network takes hold, giving the paper direct access to its customer base.

Profits have been strongest this year at the newsprint company, where earnings are up 72% on a 20% revenue gain. John Houghton, the paper company's president, figures prices will hold for at least another year until industry capacity goes into surplus. At worst, Houghton expects newsprint profits to flatten, a sharp change from the 1982 down cycle when the mills took big losses and Tribune Co. profits sank 75%.

It's likely, says Cook, that Tribune will buy more newspaper and broadcast properties; debt is a relatively low 33% of capital. It has bid on every major newspaper offered for sale in recent years. But it has bid conservatively, snaring only one property, the \$200 million 1986 purchase of the daily newspapers in Newport News, Va. This conservatism has cost the company some growth opportunities. But, considering the lofty levels at which so many publishing properties have changed hands lately, a bit of caution seems prudent.

So things continue to look up at the Tribune Co. After all, Cook's plans don't depend on any improvement in the Chicago Cubs. ■

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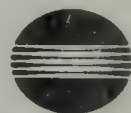
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HELPING YOU CONTROL YOUR WORLD

Insurance companies are teaming up with mutual fund houses to sell you variable life and annuity policies. Here are some things the salespeople may not tell you.

If you don't understand it, don't buy it

By John R. Hayes

JOSEPH RAFFERTY, a retired California citrus farmer, is one unhappy man. Last year Rafferty asked his broker to recommend a tax-exempt investment for \$50,000 he had received from a mortgage payment. Instead of suggesting a tax-exempt bond, say, or a fund that invests in tax exempts, the broker put him into Prudential's Conservatively Managed Flexible Portfolio, a mutual fund investing in stocks and bonds. The broker told him the fund should return 6% to 14% annually, tax exempt. On top of that, the investment came with a life insurance policy that would pay his wife over \$100,000 when he died. "Sort of like frosting on the cake," says Rafferty.

One year later, instead of a 6% or 14% gain, Rafferty's investment showed a loss of \$757.25. Disenchanted, he considered cashing in. Prudential said fine, but there would be an 8% exit fee.

Welcome to the problematic world of variable life and variable annuity policies. These are hot items lately, chiefly because there is indeed a tax angle to them. But it's not the straightforward exemption Rafferty envisioned. In short, in the already complex world of life insurance, variable policies add yet more complexity.

Insurers began pushing variables harder as whole life policies, with their fixed returns, became tougher to sell to people worried about inflation. Variable policies promise no fixed or minimum return, but no ceilings, either. The policyholder decides where to invest his premiums. (Variable annuities differ from variable life in the

same way that any annuity differs from a conventional life insurance policy—the policyholder gets a lump sum, or a series of payments, at a future date, rather than his beneficiary's getting the money on his death.)

The tax angle, as such, is straightforward—as the investment portion of the life and annuity grows, taxes are deferred. If a life policyholder dies, his beneficiary will pay no tax



Brian Albar

on the death benefit. Taxes get paid on annuity policies as the money is distributed, possibly at a lower rate after retirement.

So there's nothing wrong, in theory, with variable policies. Like any other investment strategy, they have strengths and weaknesses. Trouble is, as Joseph Rafferty learned too late, they are too often oversold, misrepresented, or both. And even the most scrupulous sales pitch can be misconstrued by people with short attention spans. Anyone contemplating a variable policy had better get two things straight.

First, the returns on such policies do indeed vary (*see table, p. 102*). The future payout depends on the performance of the underlying investments—and last October taught us how unpredictable that is. Typical policyholders get a choice of stock, bond and money market mutual funds. If you buy Nationwide Life Insurance's Best of America II variable annuity, for example, you may choose

among 13 mutual funds managed by five investment companies. Integrated Resources even sells an annuity backed by commercial real estate mortgages.

Second, as Rafferty discovered, investors who surrender their policies will be charged for the privilege. Annuities are usually sold without sales loads, but insurance companies do penalize holders for early withdrawal. Penalties start anywhere from 5% to 10% in the first year and gradually step down, over five to ten years, to nothing. In early years, then, those penalties will more than wipe out anything saved on the tax deferral. In addition, the IRS will impose a 10% tax penalty on an annuity surrendered before age 59½.

In our view, investor Rafferty was steered into the wrong kind of investment—for him. But for some people, variable policies are a good deal. They are among the last surviving tax shelters, and insurance companies and mutual funds are pushing them hard. (Keep in mind, however, that Congress may curtail this tax advantage.)

Picking a variable on the basis of performance is a daunting task. Showing how your money might grow, sales folks can be virtuosos juggling assumptions to illustrate hypothetical cases.

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	Total net assets (\$mil) 6/30/88	5-year average annual return ²	Product
Stock funds			
Best			
Nationwide Variable Account II Common Stock	\$156.6 ³	15.9%	VA
Guardian Park Avenue Fund ¹	184.5	15.5	VA
Guardian Stock Fund	179.4	15.1	VL & VA
Worst			
Value Line Special Situation ¹ (Guardian Life)	1.0	-4.4	VA
Variable Annuity Fund I of Southwestern Life ¹	6.9	2.4	VA
Security Benefit Life Fund Series A	127.6	3.3	VL & VA
Bond funds			
Best			
Kilico Income Separate Account	114.5	14.6	VA
Northwestern Mutual Life Bond Fund	35.9	12.4	VA
Equitable Trust Bond Portfolio D ¹	3.8	12.2	VA
Worst			
Value Line Income Fund (Guardian Life) ¹	5.0	7.1	VA
Hartford Variable Annuity Fixed Income	50.1 ³	9.1	VA
Nationwide Variable Account II Bond Fund	63.2 ³	9.2	VA
Balanced funds			
Best			
Northwestern Mutual Life One Fund	941.0	11.6	VA
Hartford Variable Annuity Adviser's Fund	239.6 ³	11.4	VA
Security Benefit Life Fund Series B	84.6	11.3	VL & VA
Worst			
Kilico Total Return Separate Account	213.3	7.6	VA
Prudential Aggressively Managed Flex. Portfolio	1,153.2	9.5	VL & VA
Prudential Conservatively Managed Flex. Portfolio	862.6	9.8	VL & VA

¹Sale of related insurance product may be restricted. Fund may still be open to qualified insurance and noninsurance investing. ²Relates to variable annuities only, net of all fees as of 6/30/88. ³As of 12/87

Sources: Lipper Analytical Services, FORBES

Rick Carey, president of Miami-based Financial Planning Resources, has spent 18 months developing a database to compare risk and performance of variable annuity products. Complicating his task are about ten insurance companies that choose not to cooperate with him. "Insurance companies have a tough time understanding the fishbowl approach to securities," Carey says. "If you're going to play in the securities game, you

ought to disclose everything, but many agent-only companies won't give you data."

Where there is data, the numbers don't always mean what they seem. Buy an annuity and your entire premium will be deposited in the fund of your choice. But don't look at the fund's net asset value to measure your investment's performance. Net asset value will report what happens to your money after the fund manager

takes his fees—maybe 60 basis points. It won't show the extra point or two charged by the insurance company to cover claims and administrative costs. Instead, look for something called "accumulation unit value" as the real bottom line.

Measuring the performance of a variable life investment presents a further problem. First there's usually a sales load, often taken gradually over five or ten years. Then there's the cost of insurance. Insurance companies will either deduct that up front from the premium or take their time about it through daily or monthly charges against the account. Either way the charge is based on actual risks that differ from policyholder to policyholder. Beware, then, of all generalities about variable life policy returns: Results will vary with individual investors.

For all these difficulties, one thing is plain: Performance varies all over the map. Guardian Life sells one of the best performers in the business, the Guardian Stock Fund. It has a put policyholders into one of the worst, the Value Line Special Situation Fund. (The fund is no longer covered with an insurance wrap; the 1982 tax act mandated no mixing of insurance assets with regular mutual fund assets.) Sticking stubbornly to that fund has cost investors 20% over five years. But even good past performance is no guarantee of future performance.

Glenn Daily, an insurance analyst at Seidman Financial Services, thinks that a variable life policy can be an effective way to increase your estate and pass it tax-free to your heirs. But for straight insurance value, Daily says, stick with traditional cash value policies or term insurance, which is currently priced better.

Daily also cautions investors to be wary of illustrations that show variable annuities outperforming a straight mutual fund investment. Insurance agents often amplify the disadvantages of the mutual fund and ignore the possibility that Congress may change the rules of the game. That the investor may change his own mind later.

It's all quite complicated, and, under the circumstances, about the best advice we can give the average investor is that if you don't understand how these things work and what the drawbacks are, don't buy them. You would be better off sticking with straight life and investing the difference in a good mutual fund selected from FORBES' annual survey (Sept. 5). ■



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Where are the economy's needed new jobs coming from? Not from government, but from the wonderful and often strange workings of an entrepreneurial economy.

How Gus Blythe smelled opportunity

By Dyan Machan

GUS BLYTHE, 28, may not be the next Steve Jobs, but like Jobs he found and exploited a market niche that bigger companies had neglected. Gus Blythe is the Steve Jobs of dirty shoes.

In 1981 Blythe was attending California Polytechnic and earning spending money working in a sporting goods store when he—literally—smelled a business opportunity. "I was constantly being asked by customers how they could keep their athletic shoes clean," Blythe says.

Blythe wasn't much interested in

the courses he was taking to earn an agricultural degree, so he convinced his father, a wealthy California rancher, to allow him to tap his trust fund, set up to finance his education. Why not educate himself by doing, instead of by studying? Let him use the money to start a business. Opportunity? "There are over a billion athletic shoes in this country. Somebody's got to keep them clean."

With the help of a friend, Blythe found a chemist to formulate a cleaning fluid, and that was the start of SecondWind, of Paso Robles, Calif., in 1982. Since then Blythe says he has sold more than 2 million plastic bot-

tles of the stuff for about \$4 each.

Besides satisfying Gus Blythe's to get out of school and into act his thriving little business has created ten new jobs—in sales, warehouse and administration. This may be a small but not atypical example of the unleashed entrepreneurial forces that have in the past six years created at least 12.9 million jobs. Most of those jobs came from small companies. Many of these companies are bigger than Blythe's, but many are not. Companies with fewer than 100 employees are expected to create 2.5 million of all new jobs next year.

Pessimists argue that too many manufacturing jobs have fled for cheaper labor markets overseas and that the newer jobs are represented by the "help wanted" ads at the shopping mall and local hamburger stand for minimum-wage jobs. "We are," they argue mindlessly, "becoming a nation of hamburger-flippers." False.

Fact is that at least half of the new jobs in the service economy are for managers and professionals. (The "help wanted" notices at the hamburger joint signal something else: a scarcity of able and willing teenagers.) Of the new jobs, only 12% are low-paying, like fast-food workers and janitors. Low-wage jobs have actually been declining precipitously—resulting in hard-core unemployment among the unskilled and uneducated but not in the economy at large.

Why, then, the propaganda about hamburger-flipping? Because it's hard to keep track of the small, mostly private, jobmakers. Massive plant closings are big news. Multiple openings of small businesses are rare.

Service work covers a bewildering variety. Take Randall Wise, of Wellesley, Mass., who's trying to build a business making contact lenses for chickens, or Karen Kimbrough, of New York, creating makeup for accident victims.

Or Gerald Goldhaber, who has made a tidy business as an expert on consumer warning labels. Goldhaber, 44, associate professor of the State University of New York-Buffalo communication department, has written a dozen books on communications theory. He had a thriving market research consulting business when he was asked to design a product warning label. More than just typing up some cautionary words, this involves some research to find out what consumers know—and what they don't know—because it is what they don't know that can lead to lawsuits.

In 1985 his Goldhaber Research Associates was studying where to place



Randall Wise of Animalens
Making chickens see red.



Joseph Frohnhofer, founder of Sea Tow International

With the Coast Guard chasing drug smugglers, somebody had to tow stranded boats.

arning for toxic shock syndrome on
xes of Playtex tampons. That
med his outfit \$75,000 for about six
onths of effort, but here's the clever
rt: There was a built-in annuity.
hen Playtex was sued a few years
ter, who was their expert witness?
oldhaber, of course. Now that he's
expert in the field, Goldhaber can
rn as much as \$3,000 to \$3,500 a
y. Last year the company cleared
00,000 in pretax income on reve-
ues of \$2 million. Goldhaber em-
oys 50, none at minimum wage.

Joseph Frohnhofer was a high
hool shop teacher and part-time
arine policeman in 1983, when the
ast Guard cut back on towing
randed pleasure boats to concen-
ate on running down drug smug-
ers. Frohnhofer took his savings
d started Sea Tow International in
uthold, N.Y. For a \$95 to \$150 ser-
ce contract, depending on boat size,
ustomers get unlimited tows for a
ar. Frohnhofer gets 12.5% a year
om each of his 25 licensees.

Frohnhofer has plenty of competi-
on. Instead of referring a call for help
Sea Tow, the Coast Guard now
sues an all-points bulletin, creating



The founder of Esteem by Karen Kimbrough (left)

"Everyone wants to look like Christie Brinkley."

John Lavrenz Dot

Sunglass Huts of America's Sanford Ziff
Selling \$300 shades in 200 malls.

Bill Wax



a free-for-all for fishermen with a boat and a tow rope. If no one responds in ten minutes, the Coast Guard will do the run. Will Frohnhoefer's business sink? "Sometimes I wish I could be an employee," he sighs, but adds with resolve, "I don't quit." He's not in the black yet, but the business is growing. It currently employs six people direct-

ly, and licensees employ another 150. "We want to be the AAA of the water," Frohnhoefer says.

In the late 1970s Stanley Rhodes was in the natural-food wholesaling and retailing business. He noticed that some natural-food purveyors were regularly buying peanuts reject-

Skippy or Jif for containing aflatoxin, a toxic mold. "It was 'organic' name only," says Rhodes. Consumers, Rhodes decided, "had no way to identify what was organic or not."

A chemist by training, Rhodes, 44, used all his \$300,000 in savings to start NutriClean, in Oakland, Cal. The company tests a grower's products for harmful chemicals. If it's clean, the grocer can advertise the product as NutriClean certified. "It's a sort of Good Housekeeping seal of approval," says its founder. Eight supermarket chains pay \$100,000 a year or more for the service. The business employs 15 people. Low-paid menials? Hardly. Rhodes says his biggest problem is hiring enough entomologists, food technicians, chemists and marketing types to keep up with his demand.

When Randall Wise, 40, started his first company, Graphic Communications, he says, "Everything was on the line. The house, the car. I bet everything except the kid's education. Then came the payoff. In 1986 he sold the software company for a reported \$12 million to Lotus Development Corp. and went to work for Lotus. But Wise decided he was more comfortable as employer than as employee. Leaving behind \$200,000 in stock of



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tions, he quit Lotus to start making contact lenses for chickens. The concept is not as crazy as it seems: Chickens have a gruesome habit of pecking one another to death, and 25% of the birds regularly die this way unless preventive measures are taken. Place red lenses on their eyes, and the fatality rate slips to 5% to 7%. Another strange benefit: Chickens with red lenses are less active and eat less. Wise figures Animalens, his Wellesley company, can shave a farmer's feedbill by 5%. Wise's new company employs six people.

Karen Kimbrough, 46, first started thinking about a special line of makeup for accident victims while working for Clinique. She noticed that women who had undergone reconstructive surgery or face-lifts were desperate for products that would cover bruises and make them look good. "Even with a serious disease, you still want to look like Christie Brinkley," she says.

At first Kimbrough was afraid to go out on her own: "I was born in a small town in Louisiana and had no female role models. It was hard for me to visualize myself running a company." A friend helped her write a business plan, and another's contacts led to startup funds from Worms America.

Corporate Child Care's Marguerite Sallee Turnkey child care centers.

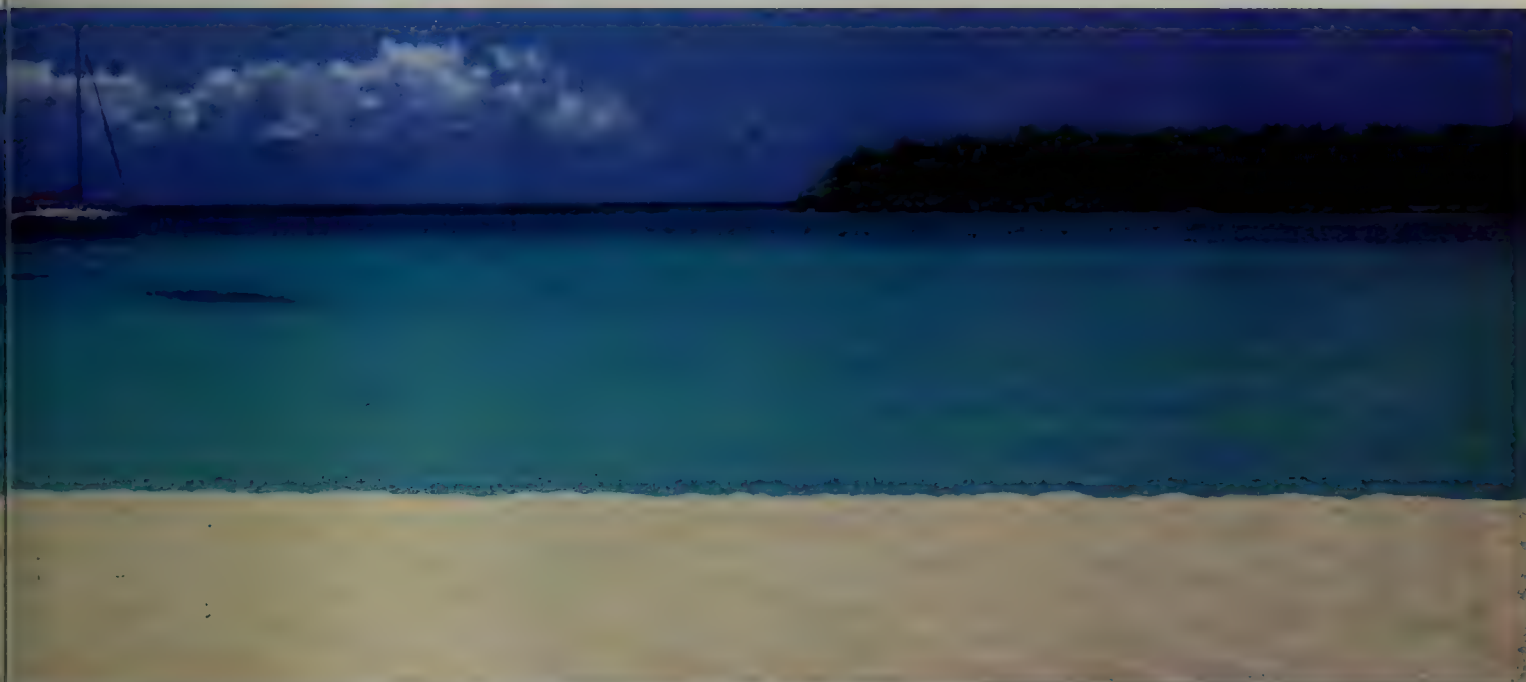
Rich Marx



The result is a 21-product cosmetics line, Esteem by Karen Kimbrough, that is on sale in six hospital pharmacies. With five employees, Kimbrough is out beating the bushes for \$2 million to \$3 million from venture capitalists for that big marketing push.

Donald Beaver Jr., 36, of Bellwood, Pa., got his inspiration from the un-

likely combination of his wife's nylon stockings and kitty litter. He left college to run janitorial services with contracts to clean offices and local plants in central Pennsylvania. He hated cleaning grease spills, common in most factories. That dirty job entailed tossing kitty litter on the spill, letting it absorb the muck, then



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sweeping it up. To be more efficient, he started stuffing the litter into his wife's old nylon stockings and using that to sponge up the mess. After running out of stockings, he switched to athletic socks he bought at the Salvation Army. "Can you believe it? I mean, it's so simple. For a long time, even I couldn't see it," says Beaver.

He called his homemade devices Pig, for Partners in Grime. In 1986 he started selling Pigs to factories. Now he's given up cleaning and runs Tipton, Pa.'s New Pig Corp., which sold \$7.9 million worth of Pigs last year and is getting close to making a profit. That's about on track, says Beaver, who knows that few new businesses turn an immediate profit. Meanwhile, his company employs 139 people.

Gregory Hind, 42, a California athlete, and his friend Guy Wells, a teacher, built a flourishing business marketing earguards for water polo caps. Hind, who competed in the Pan American games in 1968, broke his own eardrum playing water polo.

Hind-Wells, a San Luis Obispo company, didn't stop with making and selling earguards. "I mean, how many water polo players do you know?" asks Hinds. The company moved to swimming goggles and bathing suits.

In 1979 sales were \$2.3 million. Wells wanted to do more contract work, but Hind, the son of Harry Hind, founder of contact lens solution maker Barnes-Hind, wanted to expand the line. Hind bought out Wells with \$20,000 of his own money. On his own and into hock, Hind had to hit on something fast. A few years earlier a local runner had approached him and Wells, asking for something sleeker than baggy old sweatpants to run in. Hind fashioned the first pairs of nylon running tights and sold them locally. Then track star Willie Gault wore Hind's tights in a *Sports Illustrated* photograph, and the product took off. With earnings of \$2.5 million on \$21.3 million last year, Hind's next challenge is maintaining market share and coming up with the next big

seller to keep his 400 employees busy when the fad cools off.

These are not isolated episodes in the Great American Sitcom. The economy may seem offbeat, or extreme, but that's the way the new economy is: incredibly complex, making goods and services that previously did not exist and that no group of central planners, no matter how smart, could possibly engineer. In this thriving, brawling, ever changing service economy, people are also doing the more conventional things. Opening restaurants, publishing magazines, providing new services in important areas like child care, information services, convenience foods and even eye care.

For example, entrepreneurial individuals are paying a lot of attention to a dead-serious need in our society: day care for children of working couples. Marguerite Sallee, 42, runs Corporate Child Care in Nashville, offering turnkey child care centers for corporations that want to offer day care for their employees. The corporations pay \$100,000 to \$200,000 a year, depending on the number of children in the region and what the corporation provides, like space. Parents pay as little as \$60 a week.

Or take eye care, in a society that is both increasingly faddish and increasingly myopic. Sanford Ziff, a 63-year-old optometrist in Miami, owns 50 of Sunglass Huts of America. The shops offer nonprescription sport and high-fashion sunglasses that run from \$30 to \$300 a pair. Ziff now has shops in 200 shopping malls.

Alfred Berg, Laurence Roth and Jeffrey White founded Marchon Eyewear Inc. in Melville, N.Y. Their firm imports eyeglass frames and distributes them to opticians. But they do it well. They ship frames the same day a doctor orders them. Marchon's sales have grown from \$4 million in 1983 to \$40 million last year. Berg is driving a Jaguar, White a Ferrari, and Roth is planning to move into a \$2.2 million new house. Jobs created: 165 to date.

Carl Randall and David Shick are seeking to exploit a new food processing technique that extends the period that food can be kept safely under refrigeration. Their Sausalito, Calif.-based Culinary Brands sells freshly prepared foods that are sealed in airtight pouches, cooked under a vacuum and sent to restaurants. Extending refrigerated shelf life from days to weeks allows even fancy foods like seafood terrine and rack of lamb to be made in Sausalito and shipped to, say, a hotel in Boston that wouldn't have enough demand to keep a full-time chef employed.



Greg Hind, cofounder of Hind-Wells
Something sleeker than baggy old sweatpants.

In Portland, Me., Parker Poole III has set up a charge card service at gas stations that allows trucking fleets to get better control of their fuel, maintenance and clerical costs. His company, Wright Express, also supplies totally attendant-free gas stations with ATMs (automated teller machines) where the company credit cards can be used. Wright Express now has 10,000 vehicles using its credit cards. Jobs created: 40.

Eighty years ago, when the U.S. still supported 32 million farmers, it was hard for people to see that the factories springing up all over the landscape could possibly absorb the people no longer needed on the farms. What could these factories make? Who could afford to buy the products? We hear the same refrain again. When it was: How do we keep them down on the farm? Now it is: How do we keep them in steel mills and auto plants? If the young can't get work in the steel mills and auto factories, where then? Some of the answers are above. They will produce new goods and services that enrich our lives and enhance our productivity.

The federal government draws up standard industrial codes for every type of business in the nation. But nearly every five years it must drastically change the codes because so many new industries keep cropping up. This year codes had to be made to cover people like Gerald Goldhaber, the consumer labeling expert. Previously, Goldhaber would have been covered in a code called management and public relations. Because of growth in that area, in 1987 the government split the code into five: management services, management consulting services, public relations services, business consulting and commercial nonphysical research. The same thing happened to codes for software, health services and engineering and architectural firms. In its revision the government added 19 new codes just to cover the vast expansion in service industries.

But never mind government statistics. Flip through the Yellow Pages. In any major metropolitan area, you will find listings for dog psychologists, companies that do nothing but organize closets and drug rehabilitation centers for teenagers.

Do we really need all these new goods and services? Fashion sunglasses? Warning labels? People to organize our closets for us? Who is to say? Some folks—a good many—thought we didn't need the automobile. Jet travel—who needed to get to London in six hours? Computers—just toys.



Culinary Brands' Randall and Shick
Extending refrigerated shelf life from days to weeks.



Parker Poole, president, Wright Express
ATMs for gas stations.

Until goods and services are produced and face the test of the marketplace, nobody knows whether or not we really "need" them. And as the society becomes postindustrial, it becomes more complex, more specialized—and more efficient. Adam Smith's famed example of the pin factory has become refined to a point where the old Scotsman himself would be bewildered by the degree of

specialization that exists today.

But does anybody doubt that modern life, for all its confusions and anxieties, is a lot more comfortable for the ordinary person than that of yesterday? That even the humblest employee of these new businesses has a better and more secure life than the menial worker of yesterday? Aren't we all really better off with warning labels? And with shoes that smell cleaner? ■

It used to be you hoped Grandpa would leave you a piece of an oil well. Now you'd rather he left you some "intellectual property"—a piece of a marketable entertainment image.

The new aristocracy

By Peter Newcomb

IN JANUARY of this year Woody Allen, the talented but neurotic filmmaker, filed a lawsuit against Men's World clothing store in New York. The store had run an advertisement with a photo of an Allen look-alike. The decision, handed down by a Manhattan federal judge, ruled in favor of Allen, saying the look-alike "evoked the 'schlemiel' persona Allen cultivated up through his appearance in *Annie Hall*." The court felt that this sad-sack persona was Allen's sole intellectual property.

Five months later in California, Bette Midler, the buxom, brassy songstress and film star, won reinstatement of a similar case against the Ford Motor Co. for a tv commercial that seemingly attempted to duplicate Midler's distinctive voice—thus appropriating her intellectual property.

Intellectual property. As the concept broadens—it originally covered only copyrights, patents and ideas—so does the wealth of the entertainment community, which is fast becoming one of the biggest generators of capital in the U.S. economy. Today an entertainer is no longer just paid a fee for his or her work but retains an ownership in an image, a style, and can derive a continuing stream of income from it.

It wasn't always thus. Witness the 1979 suit filed by the heirs of horror star Bela Lugosi against Universal Pictures. The Lugosi heirs felt that portrayals of Dracula, the vampire character made famous by Lugosi, infringed on the rights to the character. The courts ruled in favor of Universal on the grounds that Lugosi had not merchandised himself while alive and that, therefore, his heirs could claim the exclusive rights to do so now.

This attitude changed when, in 1982, a decision in favor

Illustrations by Robert Grossman



Pop star George Michael wisely left Wham! for a solo career. His debut album, *Faith*, has sold over 15 million copies worldwide. An accompanying world tour should help Michael earn over \$36 million this year.

of the Martin Luther King Center for Social Change and against American Heritage Art Productions came out of the Georgia Supreme Court. The business firm (no relation to *American Heritage* magazine) had been selling a plastic bust of Reverend King. The King opinion said the older verdict was ridiculous, because King would have had to market T-shirts and other merchandises while he was alive in order to protect his rights after he was dead. This decision helped to refine the concept of intellectual property.

The question of whether this protection is fair will not be answered in legal battlefields in years to come. Arguments and legislation pervade areas of the topic. Los Angeles attorney Fredric L. Pold, for one, doesn't like the law. Among his clients is comedian Rich Little. Little is an impersonator. Under debate now

The top 40

Below, the entertainers making the most money; nowhere else, with the possible exception of Wall Street, are so many making so much.

Rank 1988	Rank 1987	Star/age/occupation	Gross income		Two-year total
			1987	1988 (\$mil)	
1	9	Michael Jackson/30/pop singer	37	60	97
2	1	William H. Cosby Jr./51/actor, comedian, author	57	35	92
3	6	Steven Spielberg/40/movie producer, director	23	41	64
4	2	Sylvester Stallone/42/actor, writer	21	42	63
5	5	Eddie Murphy/27/comedian, actor	27	35	62
6	4	Charles M. Schulz/65/cartoonist (Peanuts)	30	32	62
7	3	Bruce Springsteen/38/rock singer	27	34	61
8	35	Mike Tyson/22/boxer	10	45	55
9	7	Madonna (Louise Ciccone)/30/pop singer	26	20	46
10	15	Arnold Schwarzenegger/41/actor	18	25	43
11	11	U2/rock group (4 members)	29	13	42
12	10	Johnny Carson/62/tv host, producer	20	20	40
13	—	George Michael/25/pop singer	2	36	38
14	40	Oprah Winfrey/34/tv host, producer	12	25	37
15	13	Jim Davis/43/cartoonist (Garfield)	16	20	36
16	14	Bon Jovi/rock group (5 members)	19	15	34
17	8	Whitney Houston/25/pop singer	24	6	30
18	23	Paul Hogan/46/movie actor	10	19	29
19	—	Pink Floyd/rock group (3 members)	14	15	29
20	37	Julio Iglesias/44/pop singer	4	24	28
21	34	Sugar Ray Leonard/32/boxer	13	14	27
22	16	Kenny Rogers/49/country singer	16	10	26
23	22	Stephen King/41/novelist, screenwriter	15	10	25
24	—	Tina Turner/48/singer, actress	21	4	25
25	25	Tom Selleck/43/tv and movie actor	11	14	25
26	17	Van Halen/rock group (4 members)	3	22	25
27	—	Andrew Lloyd Webber/40/composer	10	14	24
28	—	Sting (Gordon Sumner)/36/rock singer, actor	10	14	24
29	20	Prince (Rogers Nelson)/30/pop singer	8	16	24
30	36	Jane Fonda/50/actress, exercise maven	5	18	23
31	—	John Cougar Mellencamp/36/rock singer	11	12	23
32	—	Grateful Dead/rock group (6 members)	11	12	23
33	33	Steve Martin/43/comedian, actor	10	12	22
34	29	Jack Nicholson/51/movie actor	11	10	21
35	18	Wayne Newton/46/pop singer	12	9	21
36	27	Michael J. Fox/27/tv and movie actor	9	10	19
37	21	Billy Joel/39/pop singer	12	6	18
38	—	Michael Spinks/32/boxer	5	12	17
39	26	Bruce Willis/33/tv and movie actor	8	9	17
40	—	Frank Sinatra/72/singer, actor	4	12	16

FORBES projections. Sources include record, film and television executives; entertainment lawyers; Amusement Business, Video Marketing Newsletter, Billboard, Variety.

whether or not Little can legally recreate the personas of certain celebrities, politicians and other public figures. If an advertising agency can't use a picture of a Woody Allen look-alike to push men's clothing, can Little use Allen's persona to sell his product, stand-up comedy? Leopold thinks he should be allowed to do so. "The art is in the impersonation, not in the person being impersonated," says Leopold. "The beauty is in the performance itself."

Maybe so, but for many people the money is no longer in the performance but in the aura the performance left behind. Elvis Presley may be moldering in the grave but his money machine keeps rolling on. When the King made his final, feet-first departure from Graceland in 1977, he left his heirs "intellectual" property far more valuable than the \$5 million or so he left them in physical property.

It costs \$7.50 for adults to see the splendidly excessive Graceland mansion, with 384 visitors moving through its halls during peak hours. While they wait their turn, most visitors will spend another \$11 across the street touring Elvis' airplanes, eating at the Heartbreak Hotel Restaurant and buying postcards and coffee mugs. Elvis look-alikes stroll the area free of charge—with no encouragement from management—and middle-age groupies can mingle with Elvis' Uncle Vester, who sits and talks to customers in one of the seven gift shops.

FORBES estimates that Graceland should bring Elvis' estate over \$11 million this year. Not bad when you consider he bought it for \$100,000 cash in 1957. "The return on equity is phenomenal," says Jack Soden, executive director of Graceland.

Elvis should get another \$4 million or so this year from other sources. The biggest chunk comes from the licensing of Elvis' image on everything from ceramic masks to collector plates to commemorative

Michael Jackson proved once again that he is pop music's reigning king. His album *Bad* has sold over 15 million copies.



rendition of "The Star Spangled Banner" still haunts FM radio stations on Independence Day, is selling between 2 million and 3 million records a year. Hendrix died in 1970, yet his *Live at Winterland* compact disc sold more than 200,000 copies over the last year. With licensing and music publishing, Hendrix' take should be over \$4 million this year.



T.S. Eliot needn't scuttle in his grave. His share of Broadway's *Cats* is earning over \$2 million a year.

lighters. The rest comes from music publishing and video and theatrical productions. The smallest contributor, and ironically the part that made Elvis king: records and movies.

All told, the Presley estate should gross some \$15 million this year. If it were put on the market as an intellectual property, the estate could probably fetch \$100 million or more.

And here's the real beauty of so-called intellectual property: Unlike run-of-the-mill real estate, say, or an oil well, this kind of property usually carries no overhead, no maintenance. What it brings in is almost pure profit. It is the nearest thing there is to an unencumbered source of wealth.

Elvis Presley has plenty of company. Crash-'n'-burn guitarist Jimi Hendrix, whose screeching

John Lennon is dead almost eight years, the Beatles disbanded longer, but Beatles and Lennon record sales go on and on. Last year the release of 14 Beatles compact discs brought worldwide sales to around 10 million copies. This year Lennon's estate probably should haul in some \$5 million.

"People are hero worshippers," says attorney Leopold. "These [deceased] entertainers retain a strong hold on the minds of a lot of people who were around at the time."

But if the dead entertainers are raking it in, live entertainers are doing even better on this year's list of the Forbes Top 40 Entertainers. Number one is moonwalking Michael Jackson. On the tail of his enormously successful

Can you copyright a smile?

Owning a song is like owning an apartment," says Charles Koppelman, president of SBK Entertainment. "You can rent it, lease it or sell it."

Yes, but on the other hand new technology is complicating the protection of music and other forms of intellectual property. A hotly contested area of copyright infringement surrounds the practice known as digital sampling. Digital sampling occurs when an artist uses a computer to copy an excerpt of a song. In some cases the computer digitally replicates a voice or the exact tone of a note or series of notes in a given song. The artist will then layer that sample on top of his own recorded music.

Is this copyright infringement? Does it steal someone else's intellectual property? Entertainment lawyer Peter Paterno thinks it does. "What it means is that somebody can take something that might have taken weeks or months to create and duplicate it in 20 seconds with a microchip," says Paterno. "I think that is completely unfair."

Computers could soon be responsible for another type of copyright infringement: visual replication. The

technology exists that would allow computers to take an image, say Marilyn Monroe, and recreate her likeness realistically enough to have her star in a movie. This would let the studios enjoy the benefits of having a big star without paying the stellar fees that usually accompany such big names.

But personality traits—voice, likeness, name, signature or image—are beginning to be considered assets tangible enough to merit protection in the courts. Enter California Civil Code 990. This code prohibits the use of likenesses of dead personalities. New York State Senator Emanuel Gold is sponsoring a similar bill in New York. "People can transfer corporate stock, they can transfer real estate, they can transfer their father's lumber business," says Gold. "They ought to be able to transfer the goodwill that their mother or father built up if they happen to have been in a celebrity-type business."

Gold is getting a helping nudge from licensing agent and attorney Roger Richman, who handles licensing of the image of Marilyn Monroe and others. He also helped write Code 990.—P.N.

record *Thriller*—a record that sold over 38 million copies—Jackson released the album *Bad*. And while not nearly as successful as *Thriller*, *Bad* has already sold over 15 million copies worldwide, resting comfortably on the charts at number 40, a full year after its release.

Jackson is a musical phenomenon. Last year *FORBES* tried to project what he would make in 1987. Our best guess was that by year's end Jackson would haul in some \$31 million. We estimated that his tour in Japan would probably make him \$5 million. We were wrong. The tour doubled our expectations.

This year Jackson embarked on a worldwide tour with over 140 scheduled dates. After his cut of T shirt and merchandise sales, Jackson should make over 40 million on the tour alone. Add that to income from sales of his autobiography, *Moonwalk*, Pepsi endorsements and other music publishing (including the Beatles catalog), and Jackson should earn at least \$60 million this year. If he is not already a centimillionaire, he soon will be.

If Jackson has no rivals among rich entertainers, he does have plenty of company.

Newcomer George Michael leaped onto the list this year at the number 13 spot in earnings. His wildly successful de-

but solo album, *Faith*, has sold over 15 million copies worldwide.

After a long, strange trip, the psychedelic band the Grateful Dead (*FORBES*, May 18, 1987) makes the list this year. The Dead's bread and butter is live concerts. The band's rigorous touring schedule kept it truckin' across America to the tune of \$23 million over the past two years.

If entertainment statistics were valid evidence of racial bias, one would have to conclude that blacks are privileged in our society; fully 25%—one in four—of the *Forbes* Top 40 are black. The list also knows no borders.

Hispanic? Madonna, Sting, Michael Jackson and Julio Iglesias all released records with lyrics sung in Spanish. "Right now you are looking at a Latin population in America that is proportionate to what the black population was when Motown took off," says musician and producer Jellybean Benitez. "You're looking at Latinos who have already assimilated into the culture and have discretionary incomes. And they are purchasing records."

It's a new world out there. No longer are steel mills or auto factories or oil wells the principal sources of great wealth. In the postindustrial society, the once despised entertainment industry has usurped that role. ■

Vita brevis, pecunia longa

Entertainers die, but that won't stop them from making money. Here, a sample of ten dead artists who are still raking it in.

Rank	Celebrity	(\$mil)	Source of income
1	Elvis Presley	\$15.0	Graceland, licensing, records
2	Ian Fleming	7.5	movies, book publ
3	John Lennon	5.0	music publ, record royalties
4	Jimi Hendrix	4.0	music publ, record royalties
5	T.S. Eliot	2.5	theater royalties, book publ
6	James Dean	1.2	licensing
7	Jim Morrison	1.0	music publ, record royalties
8	Marilyn Monroe	1.0	licensing, movies
9	John Wayne	0.7	licensing, movies
10	Abbott and Costello	0.4	licensing, movies

*Figure based on 42 month period ending June 1988. All other numbers are 1988 calendar year projections.

Politicians who wax indignant over companies' health insurance plans don't like to look too closely at the federal government's own plan, and for good reason.

"Irrational and unmanageable"

By Janet Novack

A LOT OF POLITICIANS are beginning to lay into businesses that they claim don't provide workers with decent health insurance. But ask those same politicians about the federal government's own \$8.8-billion-a-year (premiums) employee health insurance plan, and most will clam up fast. Says Harry Cain II, senior vice president for federal programs at the Blue Cross & Blue Shield Association, about the government's plan: "It's the largest privately underwritten employee health plan in the world, and among the most screwed up." At least a half-billion dollars a year is being wasted.

The problem is too much uncontrolled choice in the system. Federal workers and retirees are enrolled in about 450 insurance plans and health maintenance organizations. That's right, 450. Although many of the HMOs are local, each worker still has a bewildering choice of at least 21 plans.

A clever minority of workers make good use of this system. Back problems? Switch to a plan that pays for chiropractors. Pregnant? Switch to one that pays for "well-baby" care. But because of the way the government splits health insurance plan premiums with federal employees, other workers end up footing much of the bill for the plan-hopping by paying premiums that are far higher than in

the private sector.

In all, the government (including the Postal Service) will pay \$5.9 billion in premiums in fiscal 1988. Nearly 4 million federal employees and retirees will pay another \$2.9 billion. In 1989 the government's tab will jump 25%, and some workers and retirees will be hit even harder. For example, a federal worker whose family opts for the "high" coverage plan offered by Blue Cross will see his premi-



Towers, Perrin's Ronald Huling

A saner plan would save at least \$500 million.

ums jump 66%, to \$4,544 a year. Taxpayers will kick in \$2,586 for that family's coverage, for a total premium of \$7,130—more than twice what the same plan would cost for an employee of a large company.

Despite what cynics might think, Congress did not intentionally design an unmanageable monstrosity. When the health program was set up in 1959, it offered just four government-wide options. But public employee

unions were allowed to offer the members alternatives. During the 1970s unions began offering the plans to any federal employee ready to pay an "associate" member's fee. The National Post Office Mail Handlers' union alone rakes in \$13 million yearly in associate dues. (In August the Mail Handlers' former national director pleaded guilty to embezzling some of those dues.) Meanwhile, HMOs, which can enter the program with few restrictions, began proliferating.

Each year federal employees can switch plans with no penalty; pre-existing medical conditions are covered by the new insurer. So competitors, including union-sponsored plans and HMOs, offer low-cost plans designed to attract the young and healthy. That leaves Blue Cross' high-coverage plan with an aged, ailing base and defeats the idea of group insurance—to hold down average costs by spreading risk over the population. Some workers don't realize how bad a deal they're getting. "The typical consumer assumes that if you have to pay more for Blue Cross high then it must be a better program," says Ronald Huling, a principal with Towers, Perrin, Forster & Crosby, Inc., which recently completed a devastating report on the federal program.

According to Towers, Perrin, administrative expenses of plans in the government program run from 4% to 12% of premium payments, compared with 2% to 6% for a large corporate plan. And cost control schemes that business has adopted aren't uniformly used in the federal hodgepodge. Towers, Perrin estimates that a saner plan would save \$500 million to \$785 million a year. The federal plan is "irrational and unmanageable," agrees Jean Barber, the Office of Personnel Management's associate director in charge of retirement and insurance. "It's just careening down the road on its own."

Representative Gary Ackerman (D-N.Y.), chairman of the House subcommittee on compensation and employee benefits, vows to push for reform in the next Congress. But he admits the issue is not a priority with his colleagues, many of whom would rather carp about private-sector failings than clean up their own mess. ■

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children?

Do you use your car
to tow anything?

How long do you
plan on keeping
your car?

Where do you
like to vacation?

Who else in your
family drives
your car?

Are there hills
where you live?

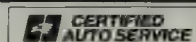
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The Benetton family has counted on a stream of handsome earnings as it pursues dreams of a bigger empire. But how long will those earnings remain handsome?

Benetton learns to darn

By Peter Fuhrman

GILBERTO BENETTON strides hurriedly across a colonnaded walkway, outpacing two high-heeled assistants toting files of papers. These are hectic times in Ponzano Veneto, site of the elegant white-washed 17th-century villa 20 miles north of Venice that serves as Benetton headquarters. The Benettons, haberdashers to the world's teenage smart set, are breathlessly trying to renew one family empire while creating another.

Their 25-year-old clothing business

is no longer the whiz kid of the retail industry. Rising apparel prices, saturated markets and shifting tastes have slowed the once-dizzying rate of growth. The Benettons, nevertheless, are pushing their own money into financial services and real estate in an effort to build the kind of sprawling, family-held industrial empire that Fiat's Agnellis have spent three generations constructing.

The Benettons, along with Carlo De Benedetti, are the most prominent of Italy's *nouveaux riches*. And *riches* they most certainly are. Since opening their first shop 20 years ago, the four

Benetton siblings—Luciano, Gilberto, Giuliana and Carlo—have swiftly ascended Italy's economic pyramid. Marketing brightly colored clothing with hip advertising, they built Italy's most dynamic and successful apparel exporting company. In 1987 Benetton sold merchandise worth \$1 billion (wholesale) to 4,500 franchised stores in 60 countries. These stores toted up retail sales of \$2.5 billion. The Benettons' 87% stake in the publicly traded retail company Benetton SpA alone is worth \$950 million.

The family is by no means tired of adding to its net worth. "We are investing in new ventures and setting new goals," says Gilberto Benetton, the 47-year-old chairman of Benetton SpA and guardian of the family's finances. Recent additions to the Benetton family's financial wardrobe include stakes in several Italian banks, a mutual fund business, an insurance company, a hotel chain and Italy's most profitable department store chain. There is also a sizable portfolio of family-owned real estate, including large commercial holdings in and around the family hometown of Treviso and a recently purchased building on Fifth Avenue in New York. All told, *FORBES* estimates the Benettons are worth \$1.5 billion.

For reasons both happy and unhappy, the clothing business is now more cash cow than potent bull. On the happy side, the Benettons run it with low overhead costs and an almost complete absence of fixed assets. The company farms out 80% of its production to small factories freed from the dead hand of Italian union bosses and bureaucrats. Benetton SpA owns none of the 4,500 shops. (The acquisitive Benettons hold about 15 choice franchises.) With little need for fixed investment, Benetton has been able to pay high dividends—70% of the \$100 million it earned last year.

But unhappily, how long those earnings will remain handsome is a question. Further growth in the clothing business will be much harder to achieve. More worrisome still, it will take more capital to support whatever sales they get.

That's because Italy by some statistical measures is now the fourth-biggest capitalist economy, having surpassed Britain and France in 1987. The price of its new affluence has been a strengthening lira and rising prices of key exports like clothing and shoes. Woolen sweaters made in Italy that last year cost \$80 in U.S. Benetton stores now cost as much as \$110. Benetton is trying to compensate by hiking its image along with prices,



Gilberto Benetton outside the Benetton villa
Interesting times for an ambitious family.

Art: Mario Biondi/Vic Contact



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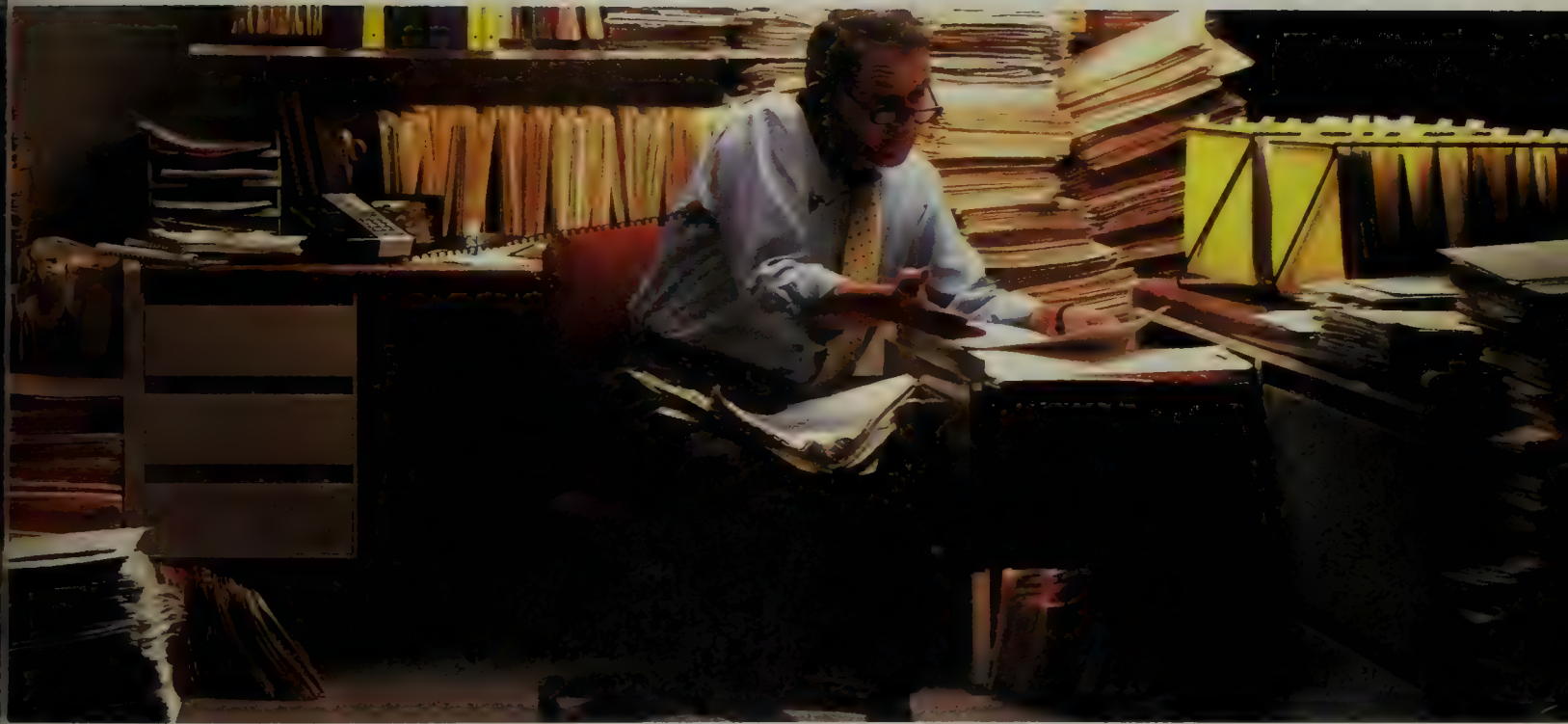
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but the pressure on Benetton merchants is intense. In 1987, 7 of 650 Benetton shops in the U.S. were shuttered. Not many, statistically, but a signal it would be folly to ignore. Aggregate sales climbed at a 25% to 30% annual clip in the last two years as the number of Benetton shops doubled. But the breakneck expansion masked an unpleasant trend: For many established stores, sales began falling off after the first few years.

Some Benetton customers may not like what they see when next they look at the label showing the origin of Benetton garments. To slow the damaging rise in prices, the company is moving to lessen its dependence on Italian suppliers. More than 90% of Benetton's merchandise is still made in Italy. Benetton now plans to begin producing in the Far East, probably within the next year.

As it shifts production to lower-wage Asian countries, Benetton will be unable to duplicate its subcontractor system, which provides jobs for about 25,000 people in Veneto. Independent factory owners in Hong Kong, Taiwan or Korea traditionally view supplier loyalty differently than do those in Italy. Asian factory owners tend to fill foreign brand-name orders and then turn around and sell overruns of the same merchandise under some other trademark to, say, K mart. Why, Benetton marketers now worry, will an American spend \$80 for a Benetton sweater if an identical Korean-made garment is at a discount store for \$30? Thus, Benetton will have to do what was once unthinkable—invest heavily to build its own factories in Asia.

The impending shift to Asian suppliers is weighing down Benetton's stock price. Italian brokers fear Benetton will choose a diluting new equity issue or a cut in dividends to pay for the investment in Asia. After coming onto the market in July 1986 at 10,300 lira per share, and rising to over 21,000 in the following 12 months, Benetton shares have tumbled to around 10,000 currently, underperforming the Italian market. "Benetton is like a utility stock," explains Chris Moore, an analyst with SIGE Securities in Milan. "It offers a high 6.5% yield, but that's set against a probable future of heavy capital spending."

Benetton shareholders can find some comfort in the fact that their interests and the family's needs coincide. Last year the family set up a new 100%-owned company, In Holding, that aims to become a big player in the crowded but woefully inefficient Italian financial services industry. In

Holding, which will sell mutual funds and insurance policies packaged by other firms, is completely independent of the Benetton clothing shops, but the family needs the dividend income from clothing operations—\$59 million paid to the Benettons in 1988—to bankroll the venture. In Holding executives, looking to ignite the kind of explosive growth that put Benetton sweater shops on every street corner in Italy, plan to open at least 200 outlets by year-end and sign up 1,000 independent agents within three years.

In this game, however, Benetton will be bumping heads against the three Goliaths of the Italian commercial establishment—Carlo De Benedetti, Giovanni Agnelli and Raul Gardini. These three already have a controlling stake in companies that make up 50% of the Milan stock exchange's \$85 billion capitalization. Already well entrenched in financial services, they too are now pushing hard to expand their investment and insurance

businesses.

All are chasing the same prize: Italy's massive amount—\$875 billion—of personal savings. Most of this money now sits in low-interest bank accounts or in bond funds that invest primarily in high-yielding government debt. With an economy one seventh the size of the U.S., Italy runs a budget deficit nearly as large between \$90 billion and \$110 billion this fiscal year. But the Italian government finances its spending without the help of foreigners.

So, in managing both its clothing business and its own private ambitions, the Benetton family will have its hands full. It's worth remembering that Benetton, all but unknown in most places less than a decade ago, now owns one of the world's most recognized brand names, as familiar as Coca-Cola and Reebok. The lines of a classic business drama are visible—a talented, resourceful and ambitious family coping with new and formidable problems. ■

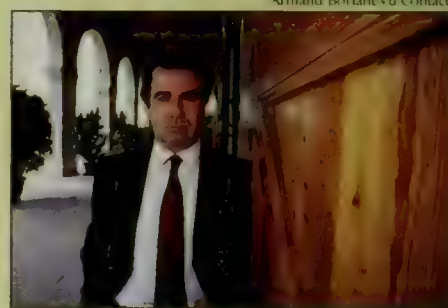
Family matters

In 1986, when Benetton went public at the urging of its managing director, Aldo Palmeri, the family floated only 12% of the equity. An additional 8% was tied to warrants. The fall in Benetton shares (*see story*) pushed the strike price on these warrants way above the current selling price. One set of warrants expired unexercised in February. The second tranche, denominated in deutsche marks, values each share at 19,800 lire, almost twice the current price.

The Benetton float, still 12%, is well below the Italian regulatory minimum, and stock exchange officials are pressuring Benetton to release more shares. But the Benettons won't budge now. "The family doesn't want to sell more shares at the current price, which we all feel is far too low," argues Aldo Palmeri, who worked at Banco d'Italia, Italy's central bank, before joining Benetton in 1982.

Especially galling to the Benettons is the fact that the company's shares sell at a lower multiple than those of some American retailers. "We don't see why the Limited should sell at 14 times [projected] earnings and Benetton at 10 times earnings," contends Palmeri.

But there are reasons for the lower multiple. One such: the com-



Armand Borlant/Vu Contact

Aldo Palmeri

Family control is a certainty.

pany's aversion to fixed assets. Unlike the Limited, which owns most of its stores, little in the way of real estate underlies Benetton share values. Also, Benetton carries more credit risk on its balance sheet—\$425 million at the end of 1987 in receivables from its 4,500 franchisees. At present, credit losses amount to 1% of total sales, but any slowdown in consumer spending could cause the amount of uncollectible debts to balloon.

A further reason for caution: Come what may, the Benetton family intends to keep the bulk of the equity. Says Gilberto Benetton: "I don't think the family will ever sell more than 30% of its shares." How important is maintaining absolute family control? we asked Gilberto. He smiled and answered, "Moltissimo."—P.F.



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With the nation's manufacturing capacity stretched and exports booming, there's a land rush on to develop industrial real estate. But it's no game for amateurs.

Warehousing profits

By Ellen Paris

JUST OFF Interstate 10, some 38 miles east of downtown Los Angeles in San Bernardino County, sprawl acres and acres of spanking-new one-story buildings in the latest high-tech and Southwestern-style designs. New flowers, fresh sod, palm trees and silk oak saplings struggle to survive in the heat and smog. Yet more suburban strip centers? No. Latter-day industrial parks—the latest

darling of real estate developers.

"Business parks," as they're known in the trade, are the hottest segment of the booming industrial real estate market. Just about anywhere you look across the country warehouses and distribution centers are multiplying as fast as strip malls were a few years back. The U.S. has added 350 million square feet of commercial warehouse and distribution space in the last 18 months alone, according to Massachusetts-based F.W. Dodge, which

tracks the construction industry. Yet the national industrial vacancy rate remains 11%, considered a healthy ratio. (The national office vacancy rate, in contrast, is around 19%.) The upturn in the industrial market began in 1987, and most industry insiders see it continuing at least through the end of next year.

What's fueling the boom? Continuing economic growth. The nation's factory utilization rate, recently 83.5%, is at its highest level since 1980. That and the surge in exports, thanks to the weak dollar, have created strong demand for properties to store and distribute inventory. Helping, too, are companies continuing to move back-office functions, such as computer services and loan processing, out of expensive downtown locations into cheaper outlying areas.

Thus have industrial projects, a boring "plain vanilla" real estate product for years, earned a new image. Last year returns on warehouse and distribution properties averaged close to 13% nationwide, compared with minus 2% on office properties.

One of the hottest markets for industrial real estate is San Bernardino County. In the first seven months of 1988 the cities of Ontario, Fontana and Rancho Cucamonga together absorbed over 6 million square feet of

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industrial space, versus 4.2 million square feet for all of 1987 and 1.8 million in 1985. Says Allan Jonas, a veteran West Coast industrial developer: "I've never seen so many investors rattling my cage to put their money somewhere."

Demand has pushed up prices, of course. Industrial land in Ontario, for example, now fetches \$4 to \$6 a square foot, up some 25% in a year. But that's cheap compared with City of Commerce (about 7 miles south of downtown Los Angeles), where prices have jumped to \$12 to \$15 a square foot, making industrial projects all but impossible to justify.

Another attraction of San Bernardino County: The area offers excellent truck and rail access. With the current expansion of Ontario International Airport, air cargo volume is expected to rise 200% a year over the next five years. The area also has a growing blue-collar work force lured by the area's relatively affordable housing.

Architecturally, the industrial product has changed dramatically. The ugly, concrete shoebox in many cases has given way to pleasant landscaped parks filled with clean, attractive buildings designed for mixed uses by varied tenants. "Today we build projects that will attract both large and small users who want to locate in



The California Commerce Center in Ontario
No more ugly concrete shoeboxes.

Steve Goldstein

parks that have an aesthetic appeal," says Jeffrey Allen, managing partner of the West Coast region of Paragon Group, a Dallas-based developer. The 1,855-acre California Commerce Center in Ontario, for example, has 120 tenants and 6 million square feet of occupied space. It houses such diverse tenants as a BMW parts distribution center, a Domino's Pizza commissary, several small medical clinics, a mortgage company and a Motorola computer services facility. "The con-

cept behind the business park is to let them develop into wider uses," says Howard Thompson, an architect and designer of business parks. "And companies can grow and never leave your park."

A booming market, relative ease of entry, the promise of good returns on a product that requires little management—with these elements in place, it's no surprise that quick-buck artists and inexperienced developers are crowding in for a piece of the action.

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So before you rush out to find an industrial deal to invest in, do your homework. Historically, industrial real estate has been a less cyclical market than office or residential. But remember, no other real estate market is so tied to the regional and national economy. In Houston the vacancy rate is 19%, in Denver 17%. Developers in Silicon Valley are still working off the glut of R&D and high-tech manufacturing space built in response to the go-go years of the early Eighties.

Remember, too, it can take as little as 90 days to put up a 100,000-square-foot concrete warehouse or distribution center. "You've got nontraditional developers coming into this market saying, 'Gee, this looks easy,' and they will run into problems and screw up the demand," warns Stan Ross, comanaging partner of Kenneth Leventhal & Co., the national accounting firm. A warehouse or distribution facility with inadequate access for trucks, for example, is going to be hard to lease and could spell disaster for the developer. "You need a lot of room outside the building to move the trucks around," says David Shotwell of U.S. Bancorp Mortgage (a division of Portland-based U.S. Bancorp), which last year did 20% of its loan volume in the industrial market, up from around 10% the year before.

Shotwell's parting advice: "Don't get involved with a bunch of doctors who want to put up a bad project." ■

The supply of damned fools is not endless, and, as gamblers know, all winning streaks come to an end. But you'd never know it in Vegas these days.

On a roll

By Marc Beauchamp

THE MAMMOTH 29-story, 3,100-room hotel-casino now rising on 86 acres smack in the middle of Las Vegas' "Strip" is not your ordinary pleasure dome in the desert. This one, being built by Golden Nugget, Inc., will open at the end of 1989 with a \$9 million lagoon, a 49-foot waterfall and a 100-foot-high, sky-lit atrium lobby filled with 70-foot-high banyan trees, coconut palms and tropical orchids. The price tag? A cool \$565 million.

Sound excessive, even by Las Vegas standards, for a \$194 million (1987 revenues) hotel and casino operator? Well, Golden Nugget Chairman Stephen Wynn, 46, isn't the only man in Vegas with big plans these days. William Bennett, chairman of the hugely profitable Circus Circus Enterprises, Inc., will break ground this fall on the southwest corner of the Strip for a massive 4,000 room hotel-casino, done in a castle motif, complete with a basement "dungeon" featuring miniature golf, movie theaters and video arcades. Its budget: \$290 million. At Caesars Palace, Los Angeles-based shopping center developer Sheldon (Beverly Center) Gordon is building an 875,000-square-foot shopping center with a (what else?) Roman theme. Patrons will take barges and gondolas across artificial lakes and canals to shop at the likes of Gucci and Chanel. There will almost certainly be more megaprojects. A Japanese company is reportedly planning a \$600 million resort-casino-residential development on 1,200 acres 7 miles south of the city. Its centerpiece: a 54-hole golf course. (The Japanese already own three Vegas casinos.)

Almost every major property on the Strip and in downtown Las Vegas has

added or is planning to add rooms and casino space. By 1990 Las Vegas' hotel and motel room inventory will have jumped more than 10%, to some 70,000 rooms. Another 29,000 rooms are on the drawing boards. Behind the optimism is steady growth in visitors and in revenue from gaming, conventions and tourism. In 1978, 11 million people visited Vegas, leaving behind \$3.3 billion. Last year 16.2 million visitors dropped \$8.6 billion. In the past decade Las Vegas' room inventory has grown more than 40%, yet last year's occupancy rate was 83.3%, a ten-year high.

Credit much of Las Vegas' good times to the national economic expansion now in its sixth year. But credit, too, Vegas itself, which has bucked the odds against it posed by competition from gaming in Atlantic City and by ever more state lottery games. The collapse of oil prices may have hurt high rollers from the Middle East, Mexico and Texas, but it also meant cheaper airfares (45% of the city's visitors arrive by air) and lower prices at the gas pump (southern California, a five-hour drive, is Vegas' most important market).

Smart marketing and promotion by the Las Vegas Convention & Visitors Authority has also helped. Vegas now ranks as one of the nation's top five venues for conventions and trade shows. Among the 556 conventions it hosted last year were the National Association of Broadcasters, the huge Comdex computer show and the Winter Consumer Electronics Show. Since 1977 convention attendance has increased fourfold, to 1.7 million delegates, and revenue has grown tenfold, to \$1.2 billion.

And Vegas marketers are taking nothing for granted. Between the Las Vegas Convention Center (soon to un-



Photo by Jeffrey Allen

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Golden Nugget's Stephen Wynn
Building a \$565 million pleasure dome.

Brad Bower Picture Group

dergo a \$30 million expansion) and its hotels, Vegas has over 2 million square feet of exhibit space, more than any other city in the nation. McCarran International Airport (recently remodeled and expanded at a cost of \$300 million) is only 3 miles from the convention center. Within a 3-mile radius of the convention center are nearly 60,000 reasonably priced hotel and motel rooms.

The boom has, of course, rippled out beyond the gaming and convention business. With new hotel rooms come more jobs, translating into demand for apartments, homes and services. Building permits are at record highs. Clark County's population, now increasing by more than 1,000 people a week, is expected to grow from 600,000 to around 1 million by the end of the century. (Las Vegas' phone book has to be printed twice a

year to keep it up-to-date.)

Many of the newcomers are retirees, drawn to Nevada by the climate, reasonable housing and food prices and the absence of state income and estate taxes. Just west of Las Vegas, Del Webb Corp. is building a 5,500-home retirement community called Sun City Summerlin, where sagebrush, mesquite and rattlesnakes are giving way to roads, artificial lakes and palm-lined golf courses.

Del Webb's development is dwarfed by one planned by Summa Corp., Howard Hughes' old company. Summa is developing 25,000 acres between Las Vegas and the Red Rock area, 18 miles to the west. Summa President John Goolsby says the area could ultimately be home to a quarter of a million people. Hughes acquired the land in the 1950s for a few dollars an acre. Today land adjoining the

property is selling for \$10,000 and up.

Predictably, not everyone is happy about all this development. Old-timers grouse about the traffic. Environmentalists fret that new lawns, golf courses and man-made lakes waste precious water and have raised the area's humidity, making the 100-plus-degree summer days seem even hotter. Experts say the Las Vegas area has enough water to support 1 million people, but, as noted, that number is little more than a decade away.

To broaden an economy based on gaming and retirees, Las Vegas is courting new business. The nonprofit Nevada Development Authority is touting southern Nevada and the state's laid-back regulatory climate and lack of an inventory tax. But Vegas isn't seeking smokestack industries or heavy water users. Its biggest catch so far: Citicorp, which moved its western regional credit card processing operations—and 1,000 jobs—to Vegas over the past four years.

What could go wrong? An economic slowdown or downturn just as all the new casino and hotel capacity comes on in 1990-92. "The Las Vegas economy wasn't recession-resistant in the early Eighties," recalls Peter Thomas, president of \$2.2 billion (assets) Valley Bank of Nevada. "The town was in an expansion phase at the time, and while growth didn't go negative, some hotels went under." Between 1983 and 1987 visitor growth averaged over 6% a year, a number that will be hard to sustain.

A few casino executives worry privately that the new capacity could touch off a withering room war, with lower room rates and sharply higher marketing and promotion costs all around. Not the ever-ebullient Steve Wynn. "If you expect us to be objective about expansion," he says, "you've come to the wrong place." Yet to meet the interest expenses on the Golden Nugget's more than \$550 million debt, Wynn must generate among the highest cash flows per square foot in the gaming industry.

Maybe he can. "The majority of the people who visit this town will have to go to Wynn's property because it's the biggest and newest," says Charles Ruthe, president of the Boyd Group, which owns the Stardust and four other casino-hotels. "Like the Taj Majal in Atlantic City, everyone will have to see—at least once—how one damned fool spent \$1 billion."

The supply of damned fools is not endless and, as gamblers know, all winning streaks come to an end. But you would never know it in Vegas these days. ■

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A SOPHISTICATED, UNDERSTATED FRAGRANCE FOR MEN.
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By Michael Alexander

President John F. Kennedy changed more than the political landscape, he changed the fashion landscape, as well. He refused to wear a hat, thereby ruining a thriving industry, but he also led the way into a new frontier of fashion heavily

influenced from across the Atlantic.

As a young man at Choate and Harvard, he had, of course, adopted what might be called the J. Press—Brooks Brothers—Eastern Establishment look; however, exposure to British tailoring while his father was ambassador to the Court of St. James had subtly affected

his ideas of how to dress. By the time he was elected to the White House, he was more Savile Row—Jermyn Street than Ivy League: tailored two-button, form-fitting suits; shirts with straight, short collars, somber and rather colorless neckwear.

By the mid-sixties the Eastern Establishment look was beginning to give way to the new sartorial currents in the air. As more and more Americans traveled to Europe, they began to appreciate the more relaxed, more casual dress favored by the English and particularly by the Italians. An American men's fashion expert enthusiastically endorsed what he dubbed "the X look, which shapes the body lines to give a gentleman a leaner silhouette," as opposed to the roomier, slightly boxy look of American off-the-rack men's suits.

Americans discovered Jermyn Street—they already knew about Savile Row but few, unlike President Kennedy, had the temerity to wear English-tailored suits. One who did was the humorist Al Capp, who thundered in, of all publications, the *Saturday Evening Post*, why he was opting for a hard-wearing English suit over anything Brooks could offer him. On Jermyn Street, that delicious, tempting, narrow thoroughfare that threads between St. James's and the Haymarket, were—and still conspicuously are—the great English shirtmakers, beginning with the excessively patronized Turnbull & Asser, that were



At the Harborplace, the exec uses his MasterCard for business expenses, his MasterCard Gold Card at the hotel's upscale Gallery Shops. Pen by Mont Blanc.



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to exert a tremendous influence on men's wear in the coming years.

In 1963, the men's fashion magazines were already describing shirts with strong patterns and bold stripes, stripings and cross hatches. The coming colors, it was reported, would be deep blues and reds—away with those pale, solid American colors. Collar points would be longer—3 3/8 inches. The aim was to achieve a well-dressed look with comfort added. By the mid-sixties, then, American executive dress was ripe for more than a little change.

American businessmen are full of paradoxes, sartorially speaking. They can

be individualistic to a fault, yet properly conservative, each of them, in dress code—more than one sharp-eyed European observer has faulted the herd instinct in men's dress. Slowly, gradually they have yielded to changing fashions in the past quarter-century, influenced and abetted by the spirited look that young executives, with their diet and exercise obsessions, now overwhelmingly favor.

What has had the most pronounced influence on male business dress, however, was the introduction of the designer label. Pierre Cardin started it all in 1964. Today there are hundreds of designer brand names, predominantly in the U.S.,



The exec's business look is enhanced by his Impeccable tie from the fall Chanel Men's Neckwear Collection. Shoes by Bally.



Europe and Japan.

Indeed their names are household words: Ralph Lauren, Alexander Julian, Giorgio Armani, Norman Hilton, Yves Saint Laurent, Christian Dior, Perry Ellis, Valentino, Bill Blass, Pierre Balmain. The names come tripping to the lips like those of sports figures and rock stars—they are equally famous and just as well, or even better, remunerated. They are celebrities (as was Perry Ellis before his untimely death) in their own right—eagerly sought after, cosseted, flattered. Ralph Lauren, in brilliantly and vividly marketing his Polo label and image, brought the traditional Brooks Brothers look a notch or two upscale and has become universally recognized. He is male all the way without the machismo. His clothing has joined the ranks of the three all-time bestselling American-made products sold abroad: the BVD, the Singer sewing machine and the ubiquitous Coke.

While changes in fibers, manufacturing and retailing helped revolutionize men's fashions, it is in the realm of style changes that we have come a long, long way. American style has definitely taken on a more international look, influenced, as noted above, by strong-minded English, French and Italian designers. The English and Continental looks have

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gradually insinuated themselves into executive dress. Style is more sophisticated, thanks especially to the Italians, with their easier jackets and trousers, their smooth-flowing silhouettes in both business and sportswear, their more pronounced accessories. The double-breasted suit has made a steady, sure comeback, for example, and even businessmen pronouncedly under six feet tall are beginning to look cheerfully comfortable in them. And what young businessman isn't wearing suspenders, bright and bold, today?

The three-button suit, the staple of the sixties, is making a slow, steady comeback, too. Trousers have increased in width by a good 2 inches, and more and more men are following the fashion trend and wearing their trousers pleated. Color is everywhere—in sweaters, socks, neckties. And especially in shirts, whether button-down, striped, narrow, or medium-wide (that English influence), color is the rage. Even Brooks Brothers sells a purple-striped button-down shirt—unthinkable 25 years ago. White-collared shirts with solid or striped body fronts, also unthinkable 25 years ago in the boardroom, are ubiquitous, on Main Street as well as Wall Street. Yellow and red and pink ties, with minuscule patterns, worn with blue-and-white

striped shirts, plain or button-down collars, have been as common as raisins in a muffin since their introduction into men's wear three years ago. Aging yuppies still insist on calling the combination a "power look."

As more and more executive types opted for French cuffs, the rage for individualized cuff links began and shows no signs of abating. Many executives view their cuff links as a form of personal statement, and one can often judge a businessman's character by the shape, size, color and design of his cuff links. Also making comebacks in fashion are tab collars (the Tom Wolfe dandified effect), topcoats and the lordly velvet-collar Chesterfield, the frock coat par excellence.

Twenty-five years ago, the blazer was considered a part of the Easterner's selective country wardrobe. Almost everyone has two today, one lightweight for spring and summer, and one medium weight for the fall and winter months. Except for diehard, old-fashioned firms where wearing a suit to the office is *de rigueur*, most businesses today acknowledge the blazer-gray pants combination as acceptable apparel. And the endless variations of shirts and ties worn with the blazer have practically created a new fashion look.

One highly regarded fashion expert points out that men's fashions have been moving, ironically, in two opposite directions. On the one hand, there has been a conspicuous and defined "return to elegance" going back to the thirties, when chalk-striped double-breasted suits, Macclesfield woven ties and spread collar shirts were considered the height of fashion. Given the profusion of off-the-rack and designer label choices today, not to mention the overwhelming choice in men's haberdashery, it's difficult to conceive of any business executive looking square (to use a sixties pejorative) or ill-suited (to use a proper pun), or being anything less than, as the popular saying has it, "dressed for success."

But outside the major cities one is likely to be aware of another phenomenon: the widespread use of casual wear, jeans, running shoes, sneakers. Suits are not worn nearly so much as 25 years ago. Sports jackets and odd pants seem to be the daily dress costume. Jogging suits, safari jackets, khakis are part of the democratic look outside the towering office blocks.

Yet the classic executive look prevails where it counts. For this fall's look is what one men's fashion magazine (GQ) calls "executive action," four conservative and proper suits are proposed: a black-and-white mini-check, a two-button "serious" chalk stripe, a navy double-breasted worsted-wool suit and a two-button worsted glen plaid. We are witnessing what one men's clothes manufacturer heralds as "the American look": easy lines, soft silhouettes, subtle colored textures in the materials, a comfortable look—in short, casual elegance. The foundation Ivy League look of the sixties has been affected by subtle but effective changes in hues and colors as well as in fashion styling and shape. Fabrics such as cotton, linen, superfine lightweight worsted, tissue-weight saxonies are now the preferred choices. The influence of Europe, above all the bravura, persistent Italian influence, remains strong and unchallengeable: The best in American clothes is stamped with a soft and appealing tailor-made look. Men have never looked or dressed better.

And 25 years later, still no butter-scotch, brass, or deep Bermuda blues on the horizon. ■

Michael Alexander is a freelance writer based in New York.

All photographs shot on location at the Stouffer Harborplace Hotel, Baltimore, Maryland.

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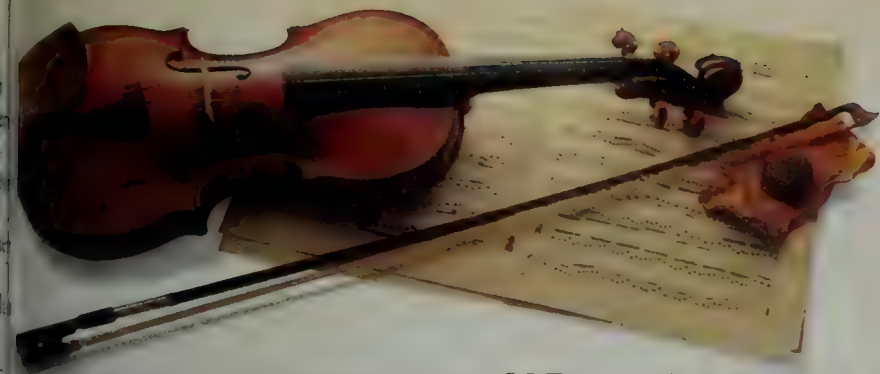
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He made a fortune in real estate, a second one in publishing. Where will young Richard Bernstein strike next?

"The herd is always wrong"

By Subrata N. Chakravarty

IHAVE A LARGE DOSE of self-confidence," says Richard A. Bernstein, 42, chairman and chief executive of Western Publishing Group, Inc. Brash, others might say, but the fact is that Bernstein has come a long way on sheer brass.

Twenty years ago the Brooklyn-born Bernstein graduated from New York University and, after a short, unsuccessful stint as a commercial real estate broker in New York, headed for Maryland. Why Maryland? "I thought the big boys in New York would chew me up," he says. "It's easier to play Boston than Broadway."

His only assets, Bernstein says, were his *chutzpah*—gall—and a 1962 Chevrolet. Since then he has amassed fortunes in completely different businesses. Each time he has done so by bucking the crowd. "You don't have to be real smart," he says, "because the herd is always wrong."

If Bernstein failed as a broker, it was for want of experience and contacts, not nerve. Despite that failure, he talked a group of small investors into giving him the money to buy a garden apartment house in Gaithersburg, Md. He agreed to manage the building at cost in exchange for a piece of the partnership. From that deal he progressed to other syndications in Bethesda, Md., Alexandria, Va. and Atlanta. Relatively small deals but good learning experience and a reinforcement for his cockiness.

Bernstein made his first fortune by bucking conventional wisdom in New York City real estate. Between 1974 and 1976 the prudent were fleeing New York's fiscal crisis. Manhattan real estate? Forget it. Some 30 million square feet of office space lay vacant. Shrewdly seeing the values

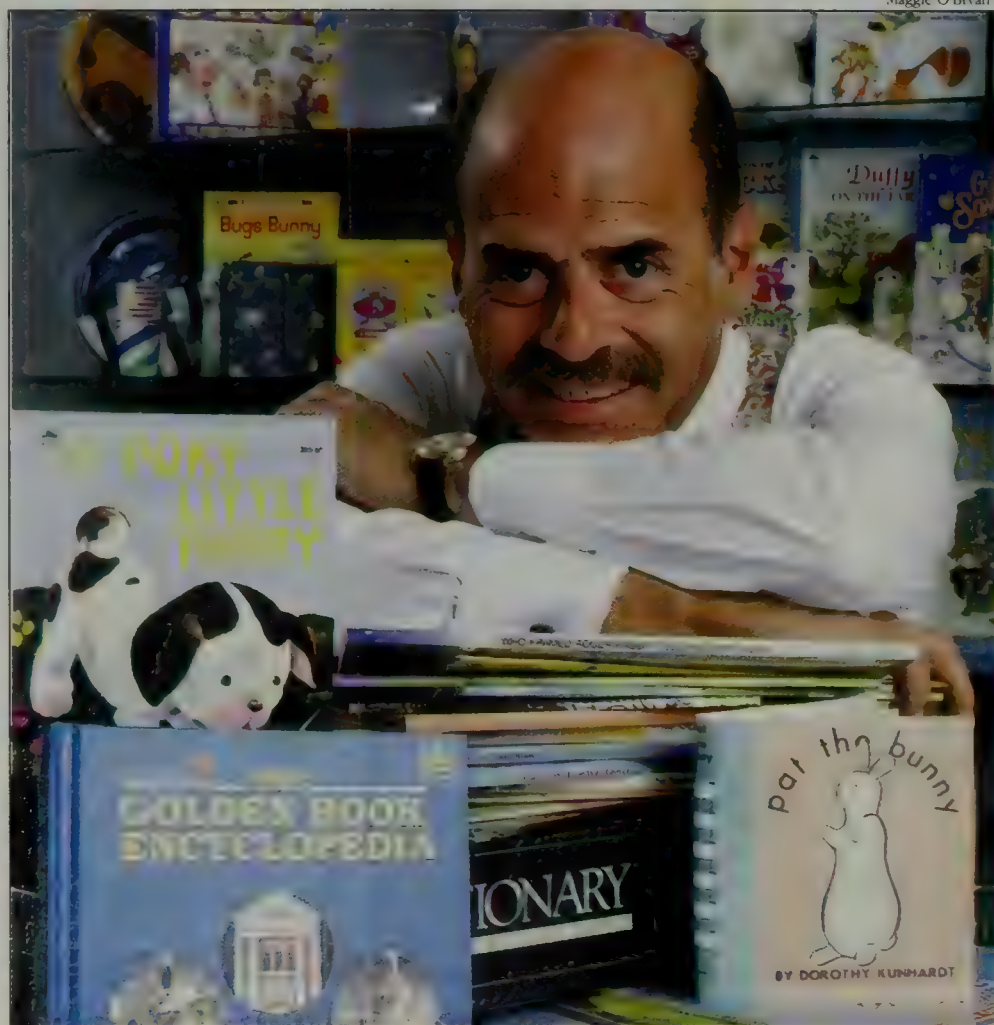
and raising money through banks and other institutions, Bernstein became one of the most active purchasers of New York commercial real estate. He accumulated about a dozen buildings in the heart of Manhattan at rock-bottom prices. They included such well-known properties as the Columbia Pictures Building on Fifth Avenue, the Marine Midland Building on Park Avenue and the Newsweek Building

on Madison Avenue. Bernstein paid an average of \$40 per square foot; today similar buildings go for \$300 per square foot.

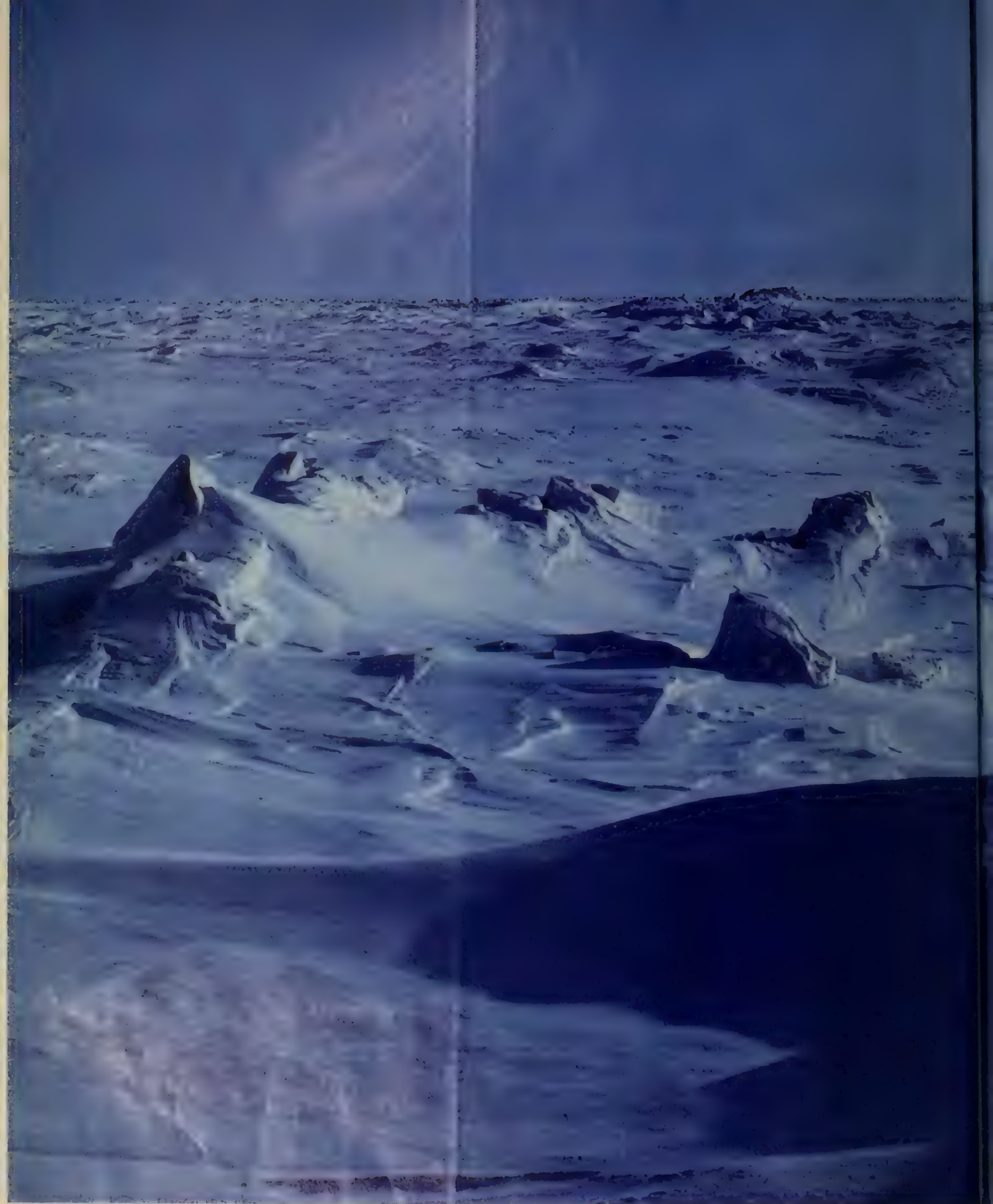
By 1981, however, Bernstein had become uneasy about the speculative frenzy sweeping the real estate markets, particularly in New York. "The buyers of investment-grade real estate were seeking yields that were lower than what mortgage financing was," he recalls. So he began cashing out at huge profits. Today he owns only the Newsweek Building and office buildings in Bethesda and Alexandria.

Bernstein began looking for new worlds to conquer. For three years he hounded investment bankers to find him a company to buy. "A real estate guy with some coin of the realm in his pocket did not have instant credibility in terms of being shown transactions," he recalls.

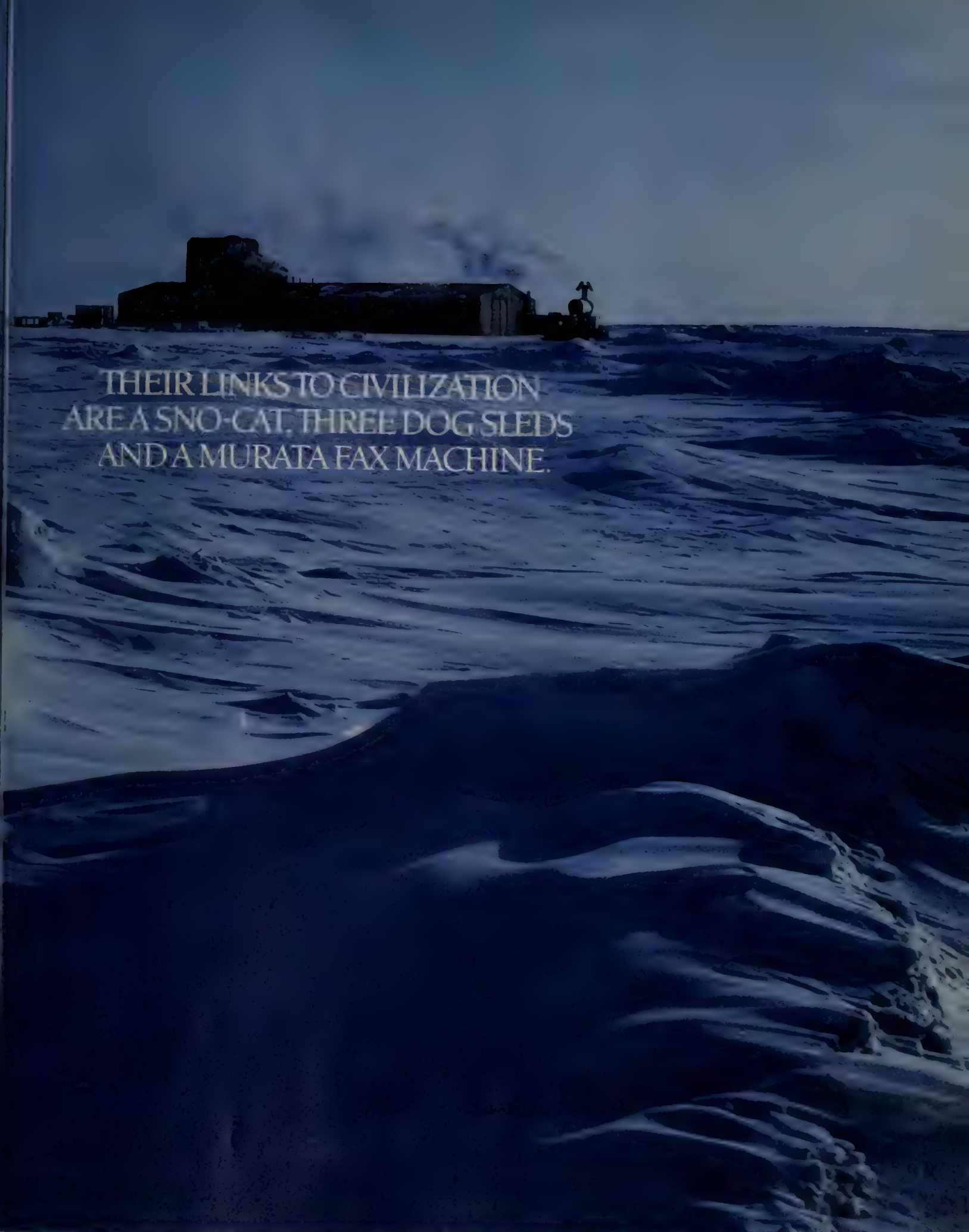
Eventually, Goldman, Sachs brought him Western Publishing. Western had been owned by Mattel, the toymaker, since 1979. Desperate to raise cash when it ran into financial trouble, Mattel had put Western on the block. Goldman, Sachs had been shopping it around for months with no success. Goldman, says Bernstein,



Richard A. Bernstein, chairman of Western Publishing Group
Even coin of the realm didn't guarantee instant credibility.



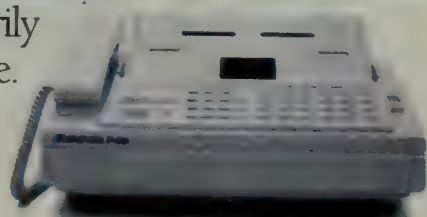
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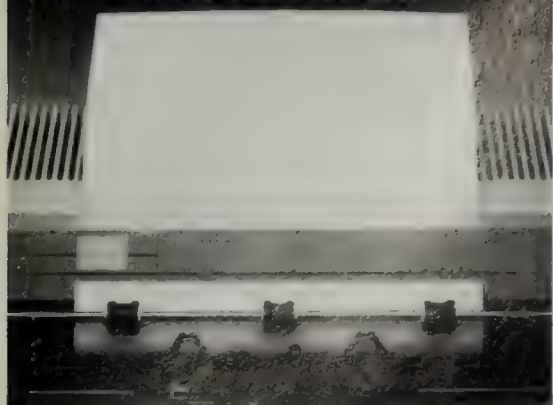
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"felt they got rid of two pains: the company they were out to sell and this guy who kept calling."

The publishers to whom Western had been offered were interested in Western's Golden Book franchise, the nation's largest publisher and distributor of books for children, but not if they also had to take Western's printing business, which constituted 40% of its sales.

"To a book publisher, printing is a necessary evil, but it's not a business you want to be in," Bernstein explains. "You contract for printing. I was ignorant enough not to know the difference. I didn't know how things were done, so I had a great advantage. Ignorance was bliss." Bernstein bought the company for \$100 million (including assumed debt). About \$5 million was his own money.

Bernstein soon found that having a printing business was actually an advantage. It gave Western flexibility that competitors didn't have. While about half the Golden Book titles are traditional books that sell steadily, half are licensed characters—Princess of Power, Pound Puppies—that are shorter-lived. "A competitor, in order to take those licenses, has to take inventory positions in them, and those that don't pan out, he eats," Bernstein says. "We take much smaller positions and, as the market develops, we can supply it because we control the means of production."

A recent example: Roger Rabbit, the hero/goat of the Disney-Spielberg movie *Who Framed Roger Rabbit*. Western has the rights for Roger Rabbit books. Now that the film is a hit, Western has cranked up production to meet strong demand. Without its printing business, it would have had to make its bet early and take a chance on being stuck with a dud or be short on supply.

Bernstein looked for a way to cut costs after taking over. He discovered that cutting labor costs wasn't the answer. "A misnomer about printing is that it is a labor-intensive business," he says. "It isn't." In printing, he says, only 10% of the cost is labor. Around 65% is material. A 1% improvement in material yield is worth far more than a 1% reduction in labor costs. He invested in more efficient machines that reduced wastage.

The reduction in costs allowed him to correct a mistake that Mattel had made. Having a dominant franchise—Golden Book has between 20% and 40% market shares in its categories—and needing money, Mattel jacked up prices to increase margins. That caused consumer resistance and at-

tracted competition. Bernstein's cost-cutting allowed him to absorb most of the subsequent material cost increases, buy back market share and increase margins anyway.

To keep growing, Bernstein added a number of products. Larger and better-quality books were added at higher price points, for example. Bernstein also added new lines of books like the Golden Step Ahead Learning and Learn About Living series. He acquired licenses from toy companies such as Hasbro and Tonka, which had been reluctant to license Western when it was owned by a rival toy company. He added videotapes based on Golden Book characters like the Poky Little Puppy and the Saggy Baggy Elephant. Three years ago Bernstein began a line of book and tape combinations. This year Western says

"To a book publisher, printing is a necessary evil, but it's not a business you want to be in. You contract for printing. I was ignorant enough not to know the difference. I didn't know how things were done, so I had a great advantage. Ignorance was bliss."

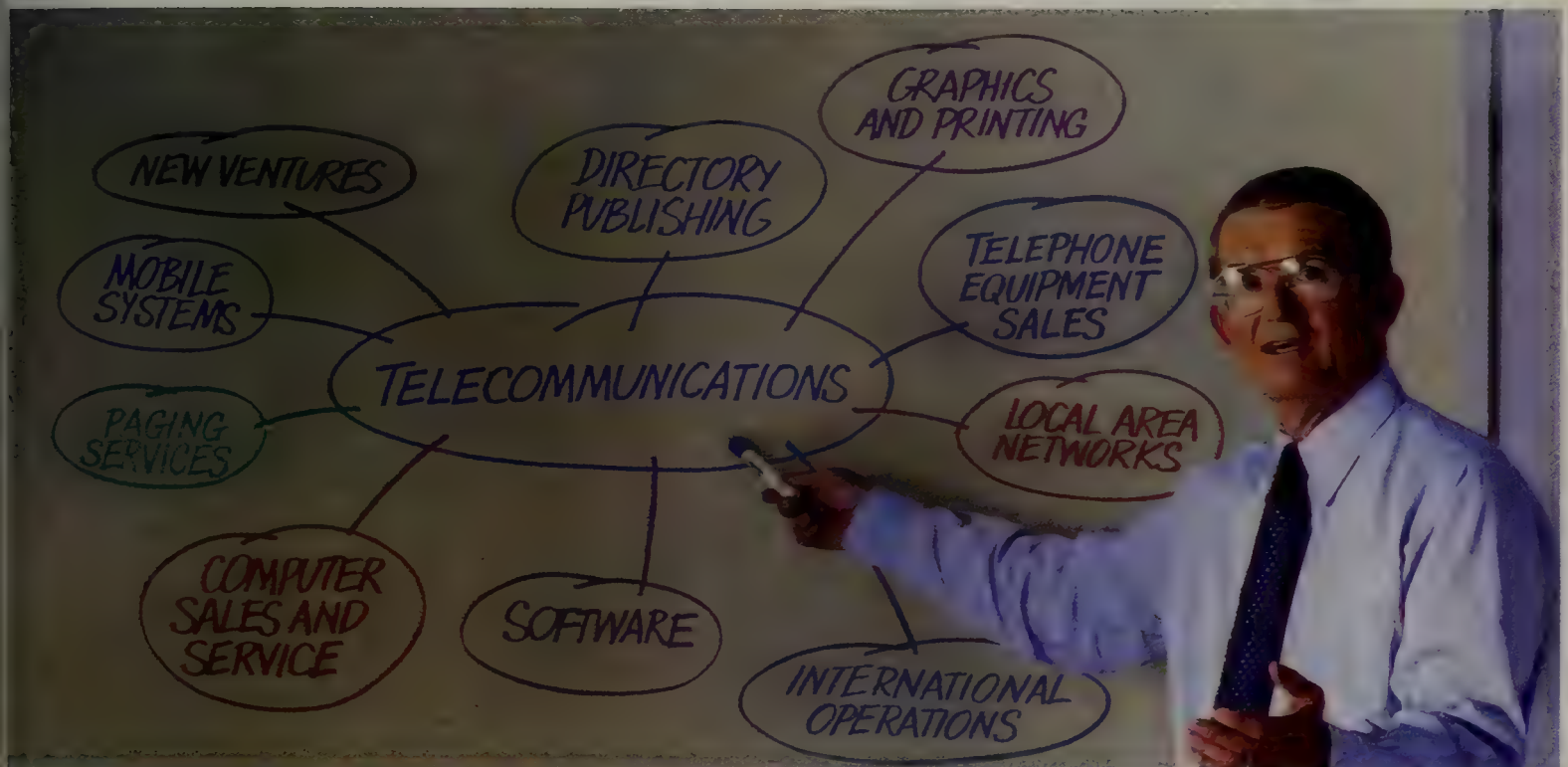
it has caught up with Disney as the largest player in book-tape combinations. Disney disputes the claim.

On the printing side, Western withdrew from the low-margin paperback book printing business and moved into what Bernstein calls sponsored publishing. Western develops promotional packages of storybooks inscribed with the logos of companies like Shoney's, Burger King and others. The packages are then used as promotional items.

A key decision was in the area of games. Western is the largest printer of such generic games as chess and checkers. Bernstein decided the company should develop some proprietary games as well. It therefore created trivia games based on sports such as football and baseball, and on television shows like *Star Trek* and *MASH*. It also helped set up a game company called the Games Gang, Ltd., a piece of which it owns.

One of the Games Gang's initial efforts is a home run. Pictionary—a board game similar to charades—was the nation's hottest board game last year. Western does all the printing and marketing of the game and owns 50% of Pictionary itself. Robert W. Baird & Co. analyst Judith Scott estimates that Pictionary accounted for

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In the years to come, BellSouth Enterprises will continue to play an important role in BellSouth's commitment to maintain high service standards, emphasize telecommunications, and pursue orderly corporate growth. With such a strategy, it's no wonder the future looks so exciting.

Clem Patton, BellSouth Enterprises Vice President — Planning and Development, outlines some areas in which BellSouth is developing new businesses that are a natural outgrowth of the company's telecommunications expertise.



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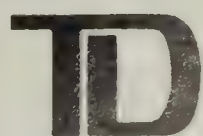
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around \$60 million of Western's revenues last year. It's doing even better this year.

The bottom line? In fiscal 1983 the company lost \$2.2 million before interest and taxes on sales of \$249 million. This year, Bernstein says, it will earn around \$60 million, again before interest and taxes. Scott estimates sales at \$525 million. Cash flow from operations last year was \$32.6 million, and analyst Scott forecasts it at \$42 million this year.

In this year's first half, Western's net income increased over 75% on a 35% sales increase. Bernstein took the company public in April 1986. He took out more than \$70 million, recouping his initial investment several times over, and retained 21% of the stock, currently worth over \$85 million. All this on an initial investment

"I learned a long time ago that you don't fall in love with bricks," says Bernstein. "They won't love you back. I'm more of a fixer than a builder. Once the fixing is done, it begins to lose some of its allure to me. I'd rather find something else broken and fix it."

of \$5 million.

In November 1986 Western bought Penn Corp., a maker of paper party goods and advertising specialties. Seemingly, there is little fit between the two companies, but Bernstein argues otherwise. Penn's Beach/Contempo division, he explains, is a market leader in party supplies—plates, napkins, tablecloths, etc.—for adults. Bernstein is now adding children's lines.

Western's stock, which went public at 20, plunged three months later to 11½ on a disappointing quarterly report. It has since climbed back to 20½, in part because of a flurry of interest when Gulf & Western tried to acquire the company last spring. Negotiations broke down for tax reasons, Bernstein says.

Is the company still for sale? Probably. Recalling his exit from real estate, he says: "I learned a long time ago that you don't fall in love with bricks. They won't love you back." He adds: "I'm more of a fixer than a builder. Once the fixing is done, it begins to lose some of its allure to me. I'd rather find something else broken and fix it."

Where will Bernstein strike next? If he remains true to form, it will be in an unlikely-looking place. ■



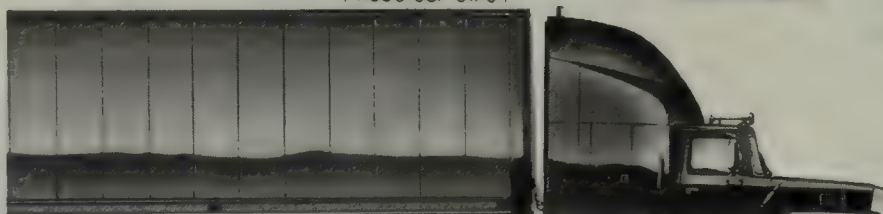
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Battle lines are forming in the war over 12b-1 fees. Investors would be better off if the enemies could forge a compromise.

Babies and bathwater

By Laura R. Walbert

A SECURITIES & Exchange Commission proposal making the rounds since June has some mutual fund managers shaking in their boots. The SEC aims to protect consumers. But do consumers need the kind of protection that the SEC has in mind?

The subject of 137 pages of SEC opinion is distribution fees, called 12b-1 fees after the rule that allows them. Adopted in 1980, 12b-1s allow fund managers an annual dip into shareholders' money to cover costs like advertising and broker commissions. Some funds take 1.25% of assets a year in 12b-1 fees, on top of advisory fees and operating expenses.

Some funds, mainly no-loads, view 12b-1 fees as a way of covering printing and advertising costs. But some broker-sold funds use 12b-1 fees to recover money paid out in sales commissions. So-called spread load plans, for example, are an alternative to front-end sales loads. The fund's distributor still pays the broker a commission up front, but no load is taken out of the investor's money at the time of purchase. The fund recoups that money by charging the annual 12b-1 fee. If a shareholder redeems before the commission is paid off, an exit load makes up the difference.

Thus, many investors benefit from spread loads. Suppose a fund grew 10% a year. One investor paid an 8.5% front load, another a 1% annual 12b-1 (applied only to the initial investment). It would take 20 years for the investor who paid 8.5% up front to be ahead. Says Matthew Fink, general counsel to the Investment Company Institute, the fund trade group,

"For most people over most periods, it is cheaper than paying the 8.5%."

Nevertheless, Kathryn McGrath, director of the SEC division of investment management, says she has 2,000 letters from investors angry about 12b-1 fees. "Investors feel snookered," she says. McGrath insists she's



SEC's Kathryn McGrath

"Investors feel snookered."

not out to kill 12b-1 fees, but that's not how industry experts read it. Says Fink, "The proposal would do away with many 12b-1 plans, particularly spread load plans."

Spread loads stretch costs over several years. The SEC wants to end the practice and avoid that future liability by requiring that 12b-1 fees be used only for costs incurred that year. "We want to get rid of some debt that funds de facto have been accumulating," says McGrath. The SEC release notes a fund that owes its distributor

\$146 million for commissions paid.

There's no doubt some funds abuse their 12b-1 privilege, using it as a hidden load. "Some 12b-1s are used for the same damn thing as the load, absolutely fungible money," says McGrath. A handful of 8.5% front-load funds pile on 12b-1 fees as an extra expense that goes on and on, without a cutoff date. And not all investors benefit equally. High-ticket investors who pay a reduced front load might pay more with a spread load. A study by two Virginia Polytechnic professors found few funds lowered other annual costs when adding a 12b-1 fee.

Real as the problems are, they are better solved by taming, not killing, the beast. McGrath is right—many 12b-1 fees are disguised loads. But early this year the SEC passed new rules forcing funds to disclose all fees and loads at the front of the prospectus—fair warning, if the prospectus is read.

McGrath also worries that a fund's fluctuating market value could cause investors to pay more or less than their fair share of costs in spread load funds. A solution: Tie 12b-1 fees to the initial investment rather than total assets. E.F. Hutton, creator of spread loads, applied 12b-1s to the lesser of initial investment or market value. Says Gary Strum, formerly of Hutton, "Other funds do it richer than I did. I did it the way I thought I had to do it to get through the SEC." Why did the SEC let later funds do otherwise?

Most worrisome is that the 12b-1 allows distributors to collect their commission several times over. With spread loads, it takes only five years or so of 12b-1 fees for distributors to recoup commissions already paid to salespeople. What flows in after that is gravy. Says Strum, "After five years you should reduce the distribution fee. It has served its purpose."

Colonial's VIP funds work that way. After six years, the funds' 12b-1 drops from 1.25% to 0.25%. McGrath calls it "a nice idea." Thomas V. Williams, head of funds at Kemper, which uses spread loads, says, "Many funds will look like that ultimately."

Given the potential for lower sales charges for investors through 12b-1 fees, there is obviously a case for them. But they should be reshaped, not abandoned. Fund expert Michael Lipper of Lipper Analytical says, "I think there's a danger here of throwing out the baby with the bathwater."

Investors, of course, can avoid the issue by picking a no-load without loads or 12b-1 fees. Says Lipper, "As long as there is the no-load alternative, let the free market decide." ■

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Analysts like Southeastern Asset Management's Mason Hawkins think generally accepted accounting principles obscure more than they reveal—thank goodness.

GAAP attack

By Jonathan Clements

FIRST, LET US TELL YOU about an investment that O. Mason Hawkins, president of Memphis-based Southeastern Asset Management, Inc. (SAM), doesn't like to talk about. He won't be happy we're mentioning it, but it says a lot about how conservative, value-oriented investing can still pay dividends even when everything goes wrong.

In May 1986 Hawkins paid \$21 a share for 9.3% of Allegheny International, the consumer products, specialty metals, energy and real estate conglomerate. Hawkins thought he was buying Allegheny International for less than half its intrinsic value. But hidden from view were real estate and unconsolidated subsidiaries that were on the books for substantially more than their true worth. "Some of the liabilities were big surprises to us," says Hawkins in disgust. "They were not in the public statements."

As word got out about Allegheny's problems, the stock slumped to 11 $\frac{3}{4}$ ¢. But despite the hidden liabilities, Hawkins had still bought Allegheny for less than its intrinsic value. And he wasn't the only investor to see worth in Allegheny's assets. In early 1987 a tender offer from a First Boston-backed investment group shoved up Allegheny's stock price. During two hours on Mar. 13, 1987, Hawkins sold while others bought, unloading the bulk of his stock at over \$14 a share. The tender offer was later withdrawn, and today the stock trades for under \$3. Last February, Allegheny

filed for Chapter 11.

Hawkins, 40, who holds an M.B.A. degree from the University of Georgia, brings an almost missionary zeal to his work. He finds devils at work, thank goodness, in generally accepted accounting principles. "GAAP is a smokescreen," he says, "but for the diligent analyst that smokescreen creates great opportunities."



Money manager O. Mason Hawkins
Smokescreens create opportunities.

That's certainly been the case for SAM's investors. Since hanging out a shingle in 1975, Hawkins has never had a down year, and only once has he underperformed the S&P 500. According to Rockville, Md.-based CDA Investment Technologies, SAM is the fifth-best money manager over the five years ending June 30, with an annualized return of 19.7%, against

the market's 14.4%. SAM manages \$1 billion for the likes of Litton Industries, Food Lion and the University of Alabama. The firm's no-load mutual fund, launched in April 1987, returned 1.6% over the last 12 months (versus -5.4% for all growth funds), and 21.7% from January to June this year (versus 14.1%). Requiring a minimum investment of \$50,000, the fund is not for pikers. (Hawkins won't take an account for private management below \$10 million.)

Most of SAM's portfolios contain fewer than 25 stocks. "We've found it difficult to understand why the 30th-best investment is more attractive than the 15th," says Hawkins. He concentrates his analysis on some 500 companies that have both a market value above \$500 million and at least a 14% return on capital.

Hawkins' success comes from nothing more exciting than poring over the financial statements of these 500 companies. Believing that book values have been rendered almost meaningless by 20 years of inflation, Hawkins digs into a company's balance sheet to find undervalued assets and overvalued liabilities. Consider:

Undervalued property. Entertainment conglomerate MCA Inc. has a book value of \$15.73 and trades for 46. Hawkins reckons MCA's Los Angeles and Orlando real estate alone are worth \$30 a share, though land is currently on MCA's books for just 17 cents a share. The company's music and film library are probably worth another \$30. Add in book publishing, TV properties and toy manufacturing, subtract the debt, and the stock, says Hawkins, is worth at least \$70.

Brand names, patents, business franchises and other intangibles. Before its 1985 acquisition by Philip Morris, General Foods carried JELL-O, Maxwell House and other brand names on its books for less than \$300 million. Philip Morris wrote up General Foods' intangibles to some \$4 billion.

Financial liabilities and investments that are not marked to market. "If long-term debt is on your balance sheet for 3% and you have a

10% interest rate environment, your real liability may be 70 cents on the dollar," Hawkins points out.

Just as overvalued liabilities should be marked down, so undervalued investments should be marked up. Hawkins estimates that Fireman's Fund Corp.'s real book value is \$35, not the accountant's figure of \$29.50. That \$5.50 difference largely comes



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from the company's bond portfolio which is on the books at less than market value. Hawkins reckons Fireman's, after underwriting losses, could earn \$11 a share on its \$7 billion investment portfolio within three years. The stock recently traded at 32.

Understated inventories. Back in 1982, when Hawkins bought R.J. Reynolds for about \$40 a share, he was paying for the food, shipping and oil businesses while getting the tobacco business for free. One reason for R.J. Reynolds' low stock price: \$17 share in inventory reserves that the market was ignoring.

But buying a cluster of undervalued assets isn't enough. You also need to know what earning power you're getting. Hawkins studies the "sources and uses of funds" statement to find free cash flow, which is gross cash flow less nondiscretionary capital ex-

"Can we compete in this business being in Memphis? Two of the senior people we admire most did pretty well in Omaha and Lyford Cay."

penditure requirements. Hawkins likes to buy companies at no more than ten times free cash flow.

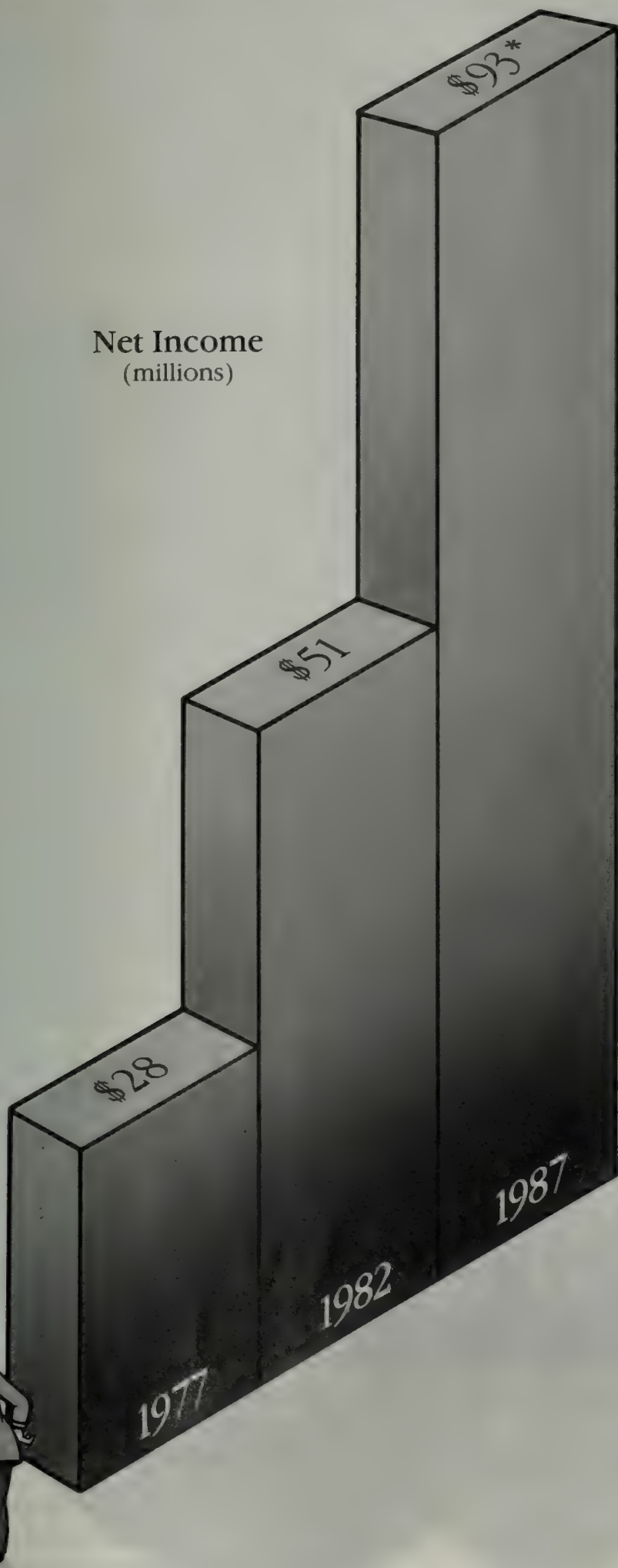
Hawkins also looks for management that has a substantial equity stake and that buys in shares when the stock price dips below the company's intrinsic value. "I don't need to know what Mr. Tisch looks like to know that he's going to do a good job for himself because [through Loews] he owns 25% of CBS," says Hawkins, who bought CBS two years ago for \$120 and thinks it's worth \$280.

Which brings us to SAM's recent acquisitions, about which Hawkins talks with a mixture of exuberance (he loves bargains) and reluctance (he may want to buy more before others clamber on the bandwagon). "In the past eight or nine months we've been dealt some of the great business franchises very cheaply," he says. SAM's latest purchases include Salomon Inc., Federal Express, Times Mirror and General Cinema.

Despite problems like those with Allegheny, Hawkins still believes a thorough study of a company's financials is enough for most investment decisions. "Can we compete in this business being in Memphis? Two of the senior people we admire most did pretty well in Omaha and Lyford Cay," says Hawkins of Warren Buffett and John Templeton. "We can still get a 10-K or a 10-Q just as quickly as a guy in New York." ■

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When does a perk become a bribe? That's the question hospitals now face as they try to fill up empty beds.

Medical benefits

By Deirdre Fanning

IN 1981 Dr. Donald Winston applied to join Houston's Twelve Oaks Hospital as a surgeon with temporary admitting privileges. Shortly afterward, Winston says, he was approached by an employee of the hospital's parent corporation, American Medical International Inc., who offered to pay him \$5,000 a month in cash. In return, he says, all he had to do was promise to remain on staff as an admitting physician at Twelve Oaks.

For five months Winston took the payments, but he claims that when he stopped sending some of his patients to the hospital, preferring to treat them in his own office instead, Twelve Oaks stopped sending him the checks. In addition, it withdrew his admitting privileges at the hospital. Now Winston is suing both AMI and Twelve Oaks in a Houston federal court, charging, among other things, commercial bribery and restraint of trade. AMI denies it has committed any wrongdoing.

Remarkably, Winston's case is hardly unique. At least three other such lawsuits are pending around the country. The common thread in each: an effort by financially strapped hospitals to attract patients by showering fi-

nancial incentives on their physicians. Inducements, the suits say, range from all-expenses-paid vacations to outright bribes and kickbacks of hospital fees.

The practice of granting inducements to doctors is nothing new. "There has always been some degree of competition for medical staff among hospitals," notes Dr. Arnold Relman, editor of the *New England Journal of Medicine*. "Since doctors are in control of the patient supply, hospi-

tals are entirely dependent on the patronage of the doctors in the community." Those inducements used to be relatively harmless. "They might include big Christmas parties or particularly attractive operating facilities or equipment," says Dr. Relman.

But with the proliferation of huge national hospital chains in the 1970s, the competition for patients increased dramatically. Add to that the federal clampdown on Medicare reimbursements (*FORBES*, Sept. 7, 1987), and hospitals have found themselves in a steadily worsening financial bind as operating margins dipped from 2% in 1984 to 0.1% in 1987.

Squeezed financially, all too many hospitals now appear to have seized on their affiliated physicians for salvation. In a lawsuit now pending in California, the nation's largest health care maintenance organization, Maxicare, is charging AMI with paying \$150,000 a month in kickbacks to a group of Maxicare-contracted physicians, as an inducement to bring patients to an AMI hospital. As a result of the contractual relationship with AMI, Maxicare claims it lost its 20% volume discount with another hospital, where it still does business.

Also in California, a group of patients and doctors is suing the Simi Valley Adventist Hospital, charging it with restraint of trade and anticom-

Tim Lewis



petitive business practices. According to documents in the case, the hospital offered below-market-rate loans and discounted malpractice insurance to doctors; in at least one case the doctor was required to refer patients to that hospital exclusively.

And what of the Houston case, which is set to go to trial in late September? The Department of Health & Human Services Office of the Inspector General has already asked the American Hospital Association to outline guidelines for acceptable perks. But if Dr. Donald Winston wins his case in Houston, those guidelines could wind up being set in the concrete of legal precedent instead.

One way or another, this looks like an area of business abuse that is about to get cleaned up. ■

*The difference between a shattered windshield
and a shattered life.*



November 17, 1986, the car in which Tara Meyer was riding was in an accident. Unfortunately, she wasn't wearing a seat belt. So like 150,000 other Americans each year, her head hit and shattered the windshield.

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Numbers Game

Uniform accounting rules are about to be imposed on life insurers. It's about time.

Short-term pain, long-term gain

By Penelope Wang

THIS YEAR the Financial Accounting Standards Board introduced some long overdue rules on how to treat net income from interest-sensitive and single-premium insurance policies. What has until now been an unnervingly loose set of accounting standards will become a stricter methodology for all insurers. That will cause a short-term earnings jolt, followed by a more realistic reflection of earnings, for companies that deal almost exclusively in those policies. Among those firms: Lincoln National, Jefferson Pilot and Monarch Capital. Says Bradley Smith of Milliman & Robertson, a Dallas actuarial firm: "Everybody will now be on a level playing field."

The basic change: Companies selling single-premium policies such as whole life can no longer declare profits that they have not yet earned. Indeed, traditional accounting rules gave issuers of such policies a great deal of flexibility. As a result, "too many companies were too aggressive in their accounting," says Wayne Upton, project manager at the FASB.

The old rules worked like this: First, the issuer booked single-premium policy payments as revenue as

soon as they were received. Then the company made actuarial projections about future expenses and began making deductions accordingly. To cover itself for these projected liabilities, the company invested the premiums at interest rates (presumably) high enough to meet obligations, with a bit

still left over for profit.

The whole arrangement created a mighty risky business. For one thing, to show revenue growth the company had to keep selling more and more single-premium policies. Yet when interest rates would shoot up, most policies would give customers the right to cancel, withdraw their premiums and reinvest for a higher yield

elsewhere. Result: The company could find itself in a potentially fatal cash squeeze.

To avoid such problems, companies invented universal life insurance. But under the new accounting rules, these companies will no longer be allowed to treat universal life premiums as revenue. Instead, only the interest income earned on the premium—plus some account fees and surrender charges for canceled policies—will be counted as revenue; the premium itself will be moved over to the balance sheet as a liability reserve.

Moreover, life insurance companies will be able to book as expenses only those benefits that are actually paid out in the current year. Sums up Brian Zell, senior manager at Ernst & Whinney: "An insurer's profit now becomes the spread between investment income and current expenses, much like a bank's."

How insurance companies treat capital gains is also being changed. In the past, insurers posted capital gains separately from earnings. But beginning in 1989 insurers will have to include realized gains and losses as components of operating income. Companies will also be forced to write off unamortized commission expenses for policyholders who convert from whole life to universal life policies.

Chas. B. Slackman

The effect of these changes will be a near-term hit to earnings for some insurers. For an example of what lies ahead, consider First Capital Holdings of Los Angeles. The company, which had been using more aggressive accounting practices, switched to the new FASB rule for this year. That made First Capital more attractive to Shearson Lehman, which now has plans to buy a controlling interest in the company.

Under the old rules, analysts estimate that First Capital would have shown 1987 revenues of roughly \$1.8 billion and earnings of about \$62 million. Under the new rules, the company actually reported revenues of only \$445 million and net income of \$32 million—nearly 20% of which came from realized capital gains.

In short, at a stroke, First Capital's insurance profits shrank to half their former size—a size that more accurately reflects the real dimensions of its business. ■



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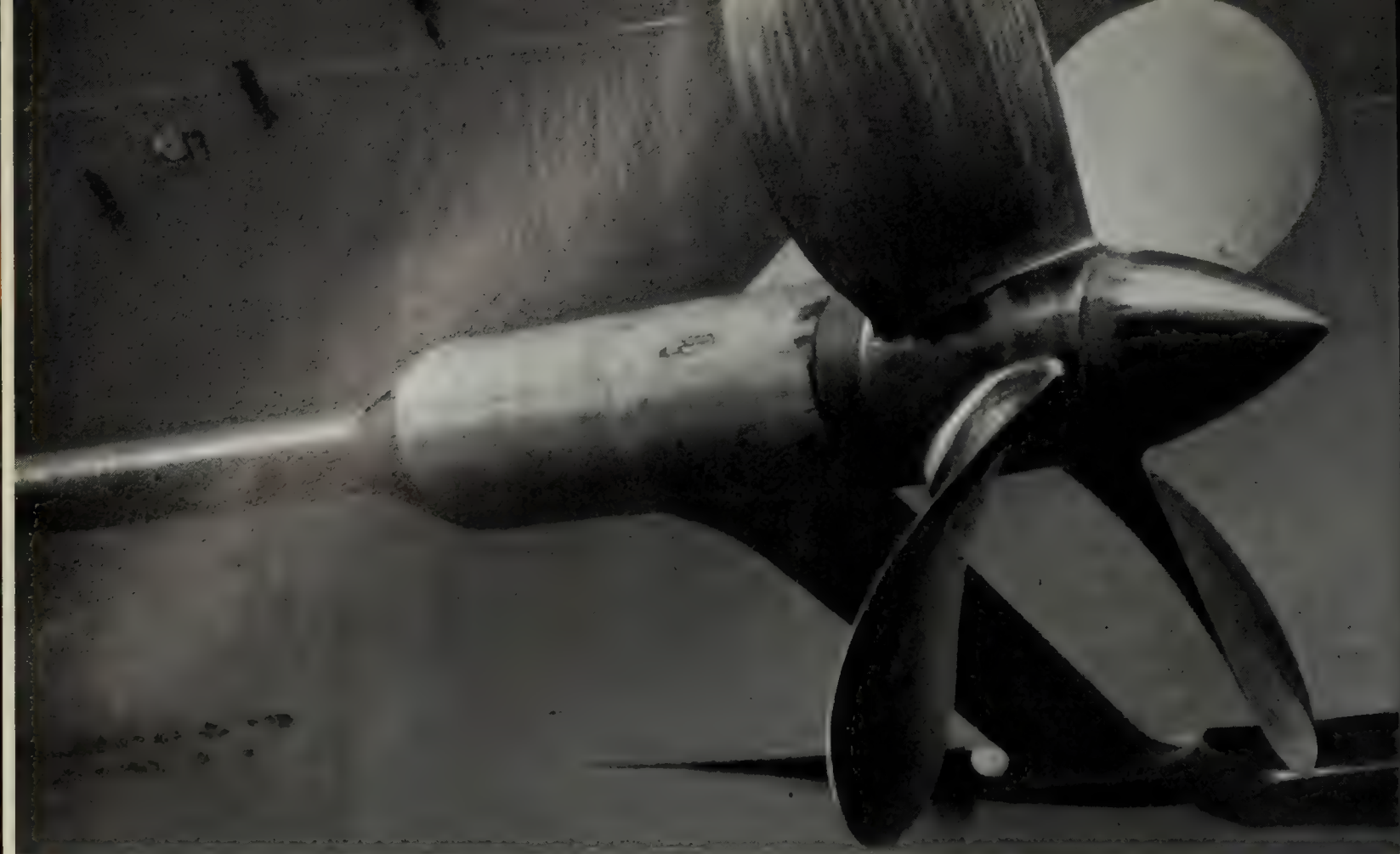
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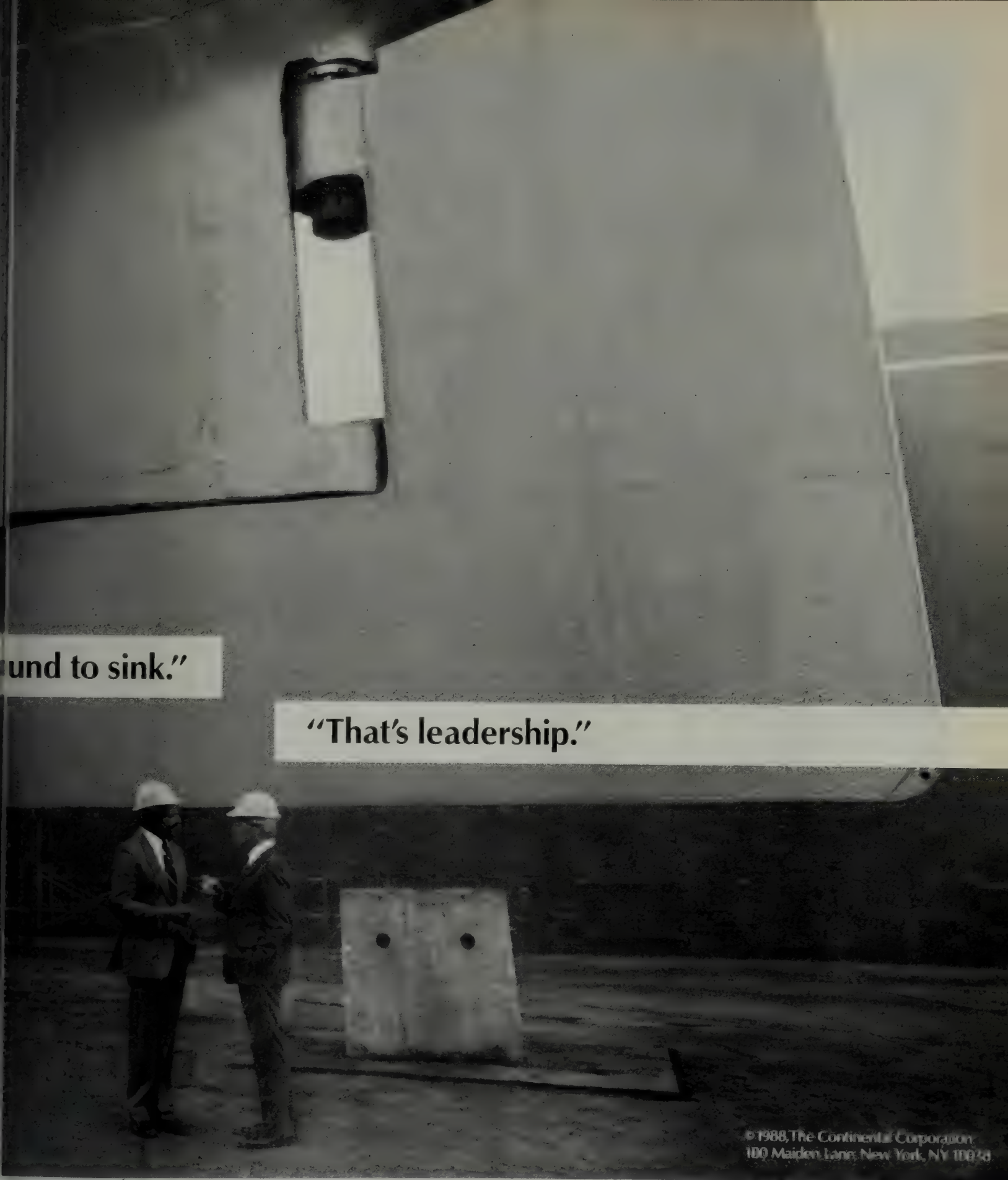
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Marketing

Edited by Jeffrey A. Trachtenberg

Forget 10-cent coupons on milk, butter and eggs. These days supermarket customers want the chance to win free automobiles and trips to Hawaii.

Sweepstakes fever

PLAY THE HEINZ SWEEPSTAKES in the Southeast and win a \$14,000 Buick Regal. Can't afford a new house? Pine-Sol, the cleaner-disinfectant, wants you to have \$250,000 in mortgage payments.

Need a vacation? GE Lighting wants your family to win a trip to Walt Disney World. Kalibur, a nonalcoholic beer, suggests that Christmas in Hawaii and a visit to the Aloha Bowl would be more inviting.

This fall Heinz U.S.A. is using a sweepstakes to increase customer loyalty and generate excitement for its ketchup. It is sponsoring a bright red race car on the Nascar circuit and linking it to a supermarket sweepstakes that has a Buick Regal as the top prize. "Racing means business in the Southeast, because it's something the customers there care about," says Jeff Conner, product manager for Heinz Ketchup. "The prizes are getting larger because people are desensitized to the small things. If you want to get their attention, you have to offer them something exciting."

Product promotion has turned into a giant lottery—or lotteries. "People are developing a pot-of-gold-at-the-end-of-the-rainbow mentality," says Charles Visich, a former marketing consultant, now senior vice president at Southland Corp. Visich attributes much of the trend to the publicity surrounding state lotteries and their growing social acceptance. He says: "When somebody wins \$23 million, it makes people who have never won anything think twice. The winners are glamorized on television. Society is telling us it's okay to participate."

And there is a glamour to these

Richard Hackett



Mayfair Foodtown store manager Richard Fischer (left)
"It's like playing the lottery. They get excited."



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product lotteries that cents-off coupons don't have. Visich: "From a marketing point of view, the value of a 50-cent coupon is known in advance. But if I offer a trip to Hawaii, the incentive is much more exciting."

The lotteries have another marketing advantage. Clutter in the mailbox and on television makes it harder for the manufacturer to get its product noticed. But Joe Namath lounging on a beach chair and offering tickets to a football game is instant glamour.

Look at Pine-Sol, the disinfectant manufactured by American Cyanamid Co. The product is marketed as a complete household cleaner. Looking for a clever promotion that would be sure to attract consumer attention, the company hit on the idea of giving away a free house.

"It's the biggest promotion we've ever done," says Paula Shaiman, product manager. "One of our marketing objectives was strong display support in the supermarkets. We're getting it."

Note, too, that there are usually separate sweepstakes aimed at store employees. To encourage store managers to set up elaborate point-of-purchase displays, major companies like Heinz and GE encourage the trade to participate. Sometimes store employees only have to mail a coupon. In other cases, photos of attractive displays are a requirement. "We want to create excitement in the stores about our product," says John Beh, a national sales manager for GE Lighting. "Offering a contest where store managers can be rewarded for building special in-store displays drives additional volume."

The Point-of-Purchase Advertising Institute conducted a supermarket survey in 1986 and found that two-thirds of all purchase decisions are made by customers at the store. No wonder,



A GE Lighting sweepstakes
Even the store managers can play.

then, that many companies are cutting store employees in on the goodies. At a time when supermarket shelves are bulging with an ever increasing array of new products, special promotional displays take on added value.

By thus rewarding store employees, however, the manufacturers may be promoting a bit of conflict of interest.

who manages the Mayfair Foodtown in Berkeley Heights, N.J., says his customers like competing for prizes. "Some of our shoppers have won trips to Florida," he says. "It's like playing the lottery. They get excited." Fischer says he has never entered a manufacturer-sponsored sweepstakes, although Mayfair Foodtown sometimes runs its own in-house giveaways.

The free trips and other prizes make good sense to manufacturers. An average of 4% of all supermarket coupons are redeemed today, depending on the value of the coupon and the frequency of the product purchase. In comparison, thousands enter the sweepstakes awards, yet few are big winners.

Insiders say that the sweepstakes are also less expensive than giving stores straight cash merchandising allowances. That's particularly true if the prize involves a commercial tie-in that promotes a specific airline or hotel. "That trip may be worth \$5,000, but it might not cost the sponsor a dime," says one supermarket executive. "Think of the advertising impact in seeing the words 'Disney World' in 23,000 supermarkets nationwide. That has great commercial value."

Everybody, it seems, loves an offer of something for nothing—even manufacturers.—J.A.T.

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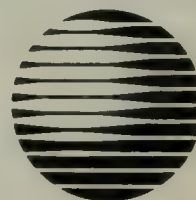
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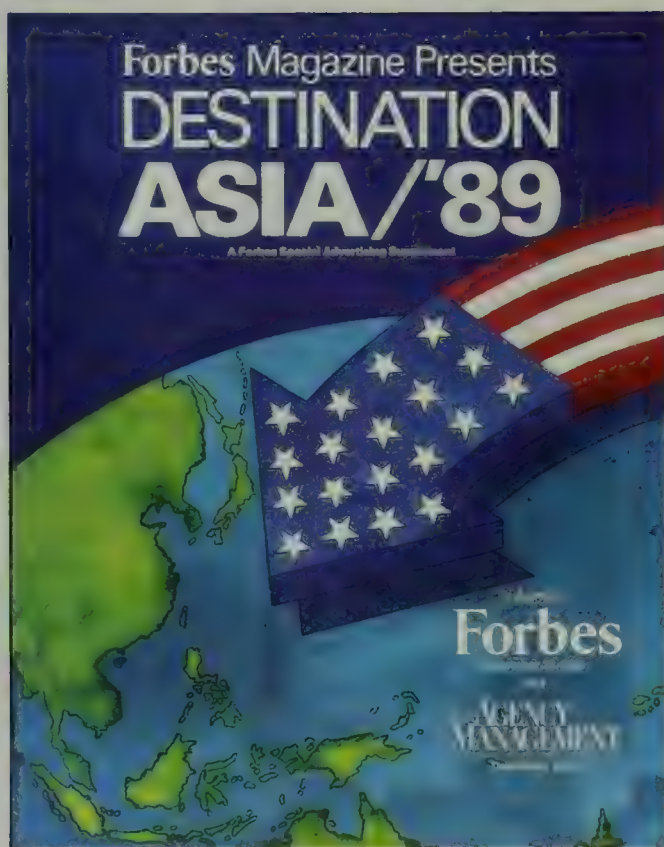
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Computers/ Communications

Computer Sciences saw its basic business wiped out by technological change, but the company itself changed and saved the day. Now it's getting ready for another change.

Go with the flow

By Kathleen K. Wiegner

CHANGE COMING AS FAST as it does in the computer business, success is easier to achieve than to maintain. That's why \$1.2 billion (fiscal 1988 sales) Computer Sciences Corp. deserves high marks. Time-sharing, the business on which it built its first major success, almost disappeared, a victim of change in technology. But the El Segundo, Calif. company found a fresh niche and went right on growing.

The man chiefly responsible for this surefooted performance is William Hoover, 58, a former data processing manager at the Jet Propulsion Laboratory, who became chairman in 1972. When he took over the job—following the death of Computer Science's founder—the company was on the brink of disaster. Writeoffs six months earlier had almost wiped out its \$46 million net worth. Between its high in 1969 and a low in 1974, the stock lost 70% of its value.

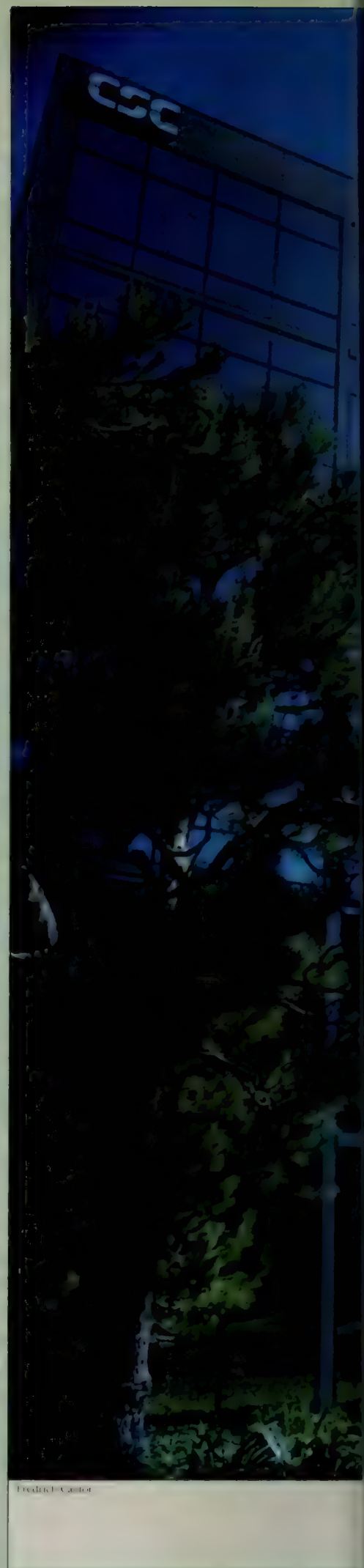
Time-sharing, which involved leasing time on large computers to firms that couldn't afford or didn't need their own, became Computer Science's most profitable business in the 1970s under Hoover's guidance. At its peak in 1980, Intonet, Computer Sciences' time-sharing network, accounted for 50% of the company's operating income. But that business disappeared in the early 1980s as small and medium-size computers took on more functions of the big mainframes. Building on the company's network expertise, however,

Hoover changed it into a "systems integrator," setting up computer systems to serve as communications networks for NASA or the Navy, say, or a highly secure network for the Treasury. Such government contracts now account for two-thirds of revenues.

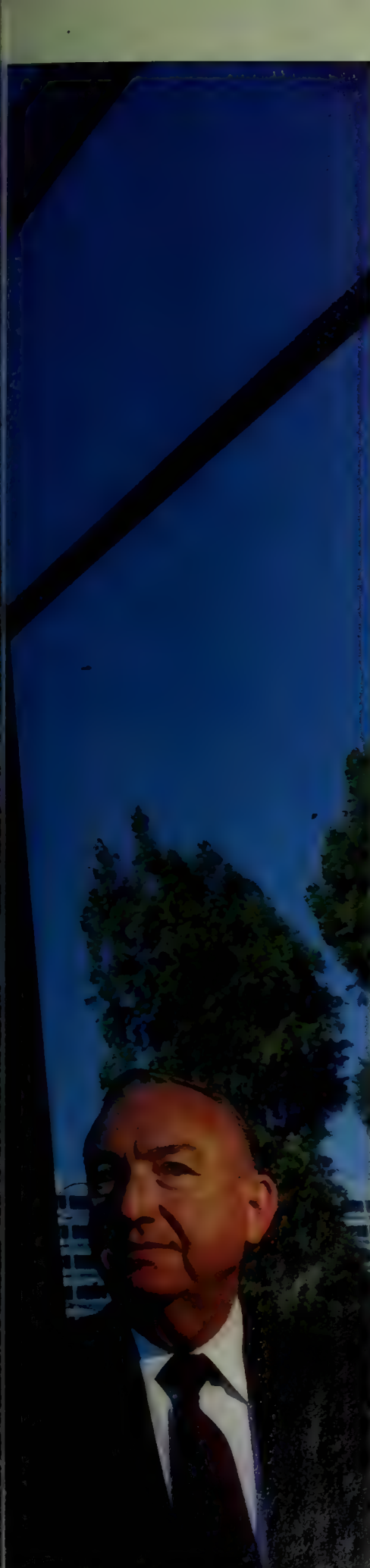
What systems integrators like Computer Sciences do is link computers, software and communications into one network, designing the system, choosing hardware and software, installing and training. Treasury customs' agents at various ports of entry, for example, can check a central database from their terminals for stolen passport numbers, contraband or names of known drug smugglers.

But Hoover knows that resting on laurels is dangerous, and he's making another switch, this time to less dependence on government business and more on private business. Government jobs are big, and sometimes lucrative, but they come with big headaches. Witness the current flap that is stalling a \$3.6 billion contract to IBM to overhaul much of the nation's air traffic control system, a contract on which Computer Sciences was counting for \$150 million in subcontracts. Computer Sciences also is teamed with AT&T and Boeing on the stalled \$25 billion job to redo the federal government's telephone system.

And the government can be a troublesome customer at times. In the early 1980s Computer Sciences and the General Services Administration got into a contract dispute that eventually attracted the Justice Department. Computer Sciences was indicted



Fredrick-Castor



ed for wire and mail fraud. The affair was finally settled out of court with the company paying a petty \$2.9 million as a settlement on the \$180 million GSA contract.

More important, government work is not where the big growth is coming from these days. According to Input, the Mountain View, Calif. market researcher firm, the commercial part of the systems integration business is growing at a brisk 38% a year, against 17% for the federal part.

Boosting the demand for this line of work is the very cheapness of computer hardware that demolished the old time-sharing business. Now users find that the real costs—and greatest risks—are not in hardware but in selecting the right hardware mix, connecting it, designing software and making the system do something useful. Exit the time-sharing company, enter the systems integrator. "Technology change has exploded," says Hoover. "As a result, the need for integration has also increased."

To correct the company's acknowledged weakness in commercial sales, Hoover has spent nearly \$100 million over the last two years acquiring firms with the needed expertise. This is part of his five-year, \$200 million plan to bring the commercial business up to 50% of operating profits, from less than 34% today.

Computer Partners, acquired in 1986, is strong in the retail and distribution market. Hoover recently acquired Index Group Inc., a Cambridge, Mass.-based consulting firm, to compete more effectively with accounting firms like Arthur Andersen that advise top management on system buys. Hoover has signed up a few blue-chip customers: AT&T, Stone Container and Motorola.

The federal government pioneered in using one central contractor to design and install a system. Probably 50% to 60% of the government's in-

formation processing and telecommunications capital budget goes to systems integrators. So the once nearly moribund Computer Sciences is today the fifth-largest supplier of information technology to the federal government behind IBM, AT&T, Unisys and Digital Equipment Corp. Over the last four years Computer Sciences has been awarded well over half of all the federal contract dollars on which it has bid. But now large corporations, too, are throwing business to the turn-key consultants. Exxon, Eastman Kodak and K mart, to cite a few, have turned to integrators to pick hardware and develop the software to tie global operations together. Can CSC transfer its considerable talents to the commercial sector? In many ways it is a different ball game.

The average commercial contract runs in the \$15 million, not the \$100 million, area—which means that selling and marketing is more important than in government business.

With government business, moreover, requests for bids are formally announced, requirements are published and the job is usually given to the low-cost bidder. The customer, in effect, goes to the industry looking for a service. With private business it is the other way around: Corporate business has to be drummed up. And the applications required by federal customers do not change as rapidly as they do in the commercial world.

Right now the company is doing just fine. After stalling from 1981 through 1985 at around \$20 million, the company's profits climbed sharply and should hit \$53 million, or \$3.30 a share, in the fiscal year that ends next March, according to Value Line, compared with \$2.73 in fiscal 1988. But success in business can be something of a narcotic, and Hoover is right to start looking for new markets before a shift in the marketplace absolutely forces him to.

"Press '3' for the legal department"

IN THE OLD DAYS, when companies hired humans to answer their telephone switchboards, everyone loved to complain—callers could never get through and nobody ever got an accurate message. That's all changed, of course, thanks to the technology of call processing. That's the new term for phone systems that combine so-called voice mail, or electronic versions of answering machines, with automated attendants or switches that let callers push a few buttons and

route their own calls.

Automated attendants save money for companies and make most callers happier by answering the phone instantly. In its most basic form, an automated attendant is a microprocessor-based black box that connects to a PBX or Centrex-type phone system and answers all incoming calls, indicating with voice prompts how callers can push a few buttons to reach various departments and extensions without the intervention of a

William Hoover of Computer Sciences
The time to look for new niches is when you don't have to.

Comp/Comm

switchboard operator. Automated attendants answer and route scores of calls simultaneously, 24 hours a day, and they never take a holiday; many businesses that install these boxes actually reduce the number of operators they have.

Processing phone calls is big business. The overall call processing market, which includes automated attendants, is worth in excess of \$500 million in sales this year, and will grow to \$1.1 billion by 1991.

Yet even as thousands of companies around the country are installing their new automated attendant systems, the two leading manufacturers of these highly specialized devices are locked in a legal battle. Both companies are small startups founded by MIT graduates who are also former Rockwell International managers.

In one corner, with a neatly trimmed beard and nattily dressed, is Sanford Morganstein, 44, co-holder of the first patent for the automated attendant. Morganstein founded Schaumburg, Ill.-based Dytel, Inc. in 1982 after being fired from his job as director of engineering when Rockwell's PBX project started foundering. In the other corner, the challenger: Gregory Peacock, 40, founder and president of Microvoice Corp. of Irvine, Calif.

Morganstein and three Dytel employees came up with a machine that automatically answered and routed calls. By the end of 1984 Dytel had manufactured and installed five of its automated attendants, and an industry was born. Sales of Dytel, a private firm, are over \$10 million. Dytel has manufactured and installed more than 1,800 of its AAX brand of automated attendants nationwide; nearly 250 of its customers are Forbes 500 companies. Dytel sells its AAX automated attendants through more than 100 telecommunications and interconnect dealers nationwide.

For their ingenuity, Morganstein and the others were rewarded with a patent and 100% of the brand-new automated attendant market. But the monopoly turned out to be rather short-lived.

Around 1985 Greg Peacock's Microvoice started to make its own brand of automated attendants. Now Peacock is selling his Apex automated attendant through both dealers and several Bell operating companies around the country, and he claims an installed base of more than 800 machines. Sales were slightly under \$4 million by last June and are roughly doubling in the current fiscal year.

Meanwhile, the competition is mounting, especially as telecommunications equipment makers, from IBM's Rolm unit to Northern Telecom, Octel Communications and Siemens, are adding automated attendant features to their PBX and voice messaging systems. A few months ago the government issued a patent

for automated attendant technology to Opcom, Inc., a San Jose, Calif. based company. Opcom recently merged with VMX, Inc., the Dallas-based outfit that developed digitized voice messaging in the late 1970s.

To try to stall the upstarts, Dytel's Sandy Morganstein is suing to prevent what he believes to be infringement of his patent coverage. Dytel has already convinced Applied Voice Technology of Bellevue, Wash., a little telecommunications equipment concern, to take licenses for his technology. But his archrival, Microvoice, refused to sign a licensing deal, and now the two companies are fighting it out in court. Pretrial discovery will end in January, and the trial is set to begin in April 1989.

Helping Dytel is Jerry Mills, a prominent Dallas-based patent attorney who helped Texas Instruments pry royalties out of nine Japanese firms and one Korean firm it claimed had infringed its DRAM patents. Last

year TI received \$191 million in royalties from the deal, which accounted for nearly half its total pretax income.

It would be nice for Dytel to win in court, but Morganstein isn't counting on it. Instead, he's working on new products he hopes might enable him to keep pace with the competition. Next up: an automated corporate phone directory which can be accessed by Touch-Tone telephone simply by spelling out the name of the party you're trying to reach by pressing the appropriate telephone buttons. The automated attendant will respond by giving the caller the name and his extension.

Dytel has already installed an automated attendant system for Montgomery Ward in which callers can find the location of the nearest store simply by dialing in their zip codes.

Win or lose, Dytel is bound to keep pushing the technology it developed. "The industry is so huge and it's only in its infancy," says Morganstein. In other words, you'd better learn to love the digitized voices of these electronic operators.—Ronald Bailey



Microvoice's Greg Peacock at customer switchboard
Thank you, Bell operating companies.



Sandy Morganstein of Dytel in recording booth
His monopoly didn't last long.

A new way to get stock quotes

JOHAN BLOKKER JR. of Fairfield, Iowa-based Cablessoft and his partner Eric Randall have invented a device that pulls stock quotes off the Financial News Network cable TV ticker and feeds them into a personal computer. Using it you can watch the tape without having to put up with the networks' talking heads and raucous commercials. At a convention in New York's Jacob Javits Center last summer they presented the product under the banner, "Free Stock Quotes." Complains Joseph Taussig, president of FNN subsidiary Data Broadcasting Corp., "They don't even pay us any money."

One thing is for sure: The field of financial information services will continue to change rapidly. It wasn't so long ago that Marketline was state-of-the-art: a clumsy terminal that displayed 15-minute-delayed quotes only after you plugged the telephone handset into a box and punched in your stock's code. That business gave way in the early 1980s to the personal computer and on-line services such as Dow Jones News Retrieval Computer Service for stock prices.

All those sources, however, were tied to the telephone. Cablessoft is at the forefront of the next advance—using cable TV to carry data. Others, from Telemet America's Radio Exchange and Lotus Development's Signal avoided phone line charges by pulling stock prices out of the air from FM radio transmissions, but unlike Cablessoft, these services aren't free. Lotus charges \$55 a month for its end-of-the-day pricing service.

The use of cheap computing power to transmit electronic quotes is already threatening one Wall Street institution. For decades, National Quotation Bureau Inc., a unit of Commerce Clearing House, has published the pink sheets listing bid and asked prices on thousands of issues not listed on Nasdaq. Now Nasdaq has a proposal before the SEC to put up an electronic o-t-c bulletin board on several thousand of these stocks. David Burnett, president of National Quotation Bureau, says, "We don't have enough information on this to make an intelligent comment." If he isn't worried, he should be.

Cablessoft's free Livewire quotes won't do for professional investors. FNN's quotes are already 15 minutes old by the time they hit the cable program and the network's ticker carries only stocks—no options, futures or money market instruments. And FNN isn't available everywhere; even

where it is carried, some cable systems broadcast FNN only at certain hours of the day, thereby deadening the Livewire.

Also, Livewire cannot begin to compete against sophisticated quote-delivery systems like Quotron, which provides access to many databases and customizes its services for individual clients. But for people who just want to keep an eye on the market while doing other things, Cablessoft is a handy service.

Blokker, 32, had no trouble funding his startup firm. He is the grandson of Don Whittier, a member of The Forbes Four Hundred who is heir to the Belridge Oil fortune. "I was watching FNN and babysitting for my kids while my wife was sleeping in the morning," he says. "Some guy in a commercial was talking about quotes you could get on your personal computer. I said 'Wait a minute, the quotes are right there.'" Blokker was in the final stretch of getting his Ph.D. in electrical engineering from the University of California at Santa Barbara when Eric Randall, 39, a software specialist, lured him back to his home state of Iowa for a business venture. Four years ago the pair began work on Livewire.

The two developed a computer card that goes inside a personal computer. They crammed the card with a television tuner, a digitizer and an artificial

intelligence computer, which converts the information into a computer-displayable format. At a price of \$995, the card lets a user pull down as many quotes from the FNN ticker on a cable television screen as he wants throughout the day. Livewire also does portfolio management and technical graphing.

Currently Cablessoft doesn't pay FNN any fees, though FNN is demanding a royalty on each Livewire unit sold. FNN pays a modest service fee to the exchanges to carry the 15-minute-delayed quotes. FNN has the option of copyrighting its ticker, and it could also make life difficult for Cablessoft merely by changing the typeface of the ticker display. FNN is also working on alternative ways to deliver its signal. An FNN subsidiary, Data Broadcasting Corp., is investigating a flat, KU-band frequency satellite dish that can be as small as 27 inches across.

For the moment Dow Jones and Quotron don't have much to worry about from Cablessoft. But as the publisher of the pink sheets is finding, nothing stays the same for very long in this business. Certainly, developments like Cablessoft are bringing the day closer when newspapers will no longer devote numerous pages to carrying detailed stock quotes; by the time the papers reach the readers, the stock quotes will be old news to most of the people who are interested in the information.—Steve Kichen

Free stock quotes

The Livewire board plugs into an IBM PC or compatible clone and has a coaxial cable TV connection. When its miniature TV receiver is tuned to Financial News Network the stock ticker is first converted from a video signal into a digital format and then into computer-readable numbers. The program then stores selected prices and displays quotes in either tabular or graphical form.

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graph LR; A[Miniature TV receiver] --> B[Video digitizer]; B --> C[Artificial intelligence];
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Photo by David Hamsley

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The Bigger Picture

Science & Technology

Edited by Gary Slutsker

Medtronic invented the cardiac pacemaker, but then nearly lost its franchise by cutting corners. Now some new technology has revived the firm.

Took a licking but keeps on ticking

By Alyssa A. Lappen

IT WAS EVERY inventor's nightmare. Soon after 1960, when Earl Bakken invented the first successful implantable cardiac pacemaker, the company he founded, Minneapolis-based Medtronic Inc., had 80% of the burgeoning world market for the lifesaving devices. But then Bakken watched in horror as the management he installed began cutting corners to raise profits. Quality control

went haywire, resulting in pacemaker recalls. As profits fell, Medtronic was losing its technical edge.

Today Medtronic (sales, \$680 million) is once again the leader in the \$1.2 billion worldwide pacemaker market. With its reliability problems firmly behind it, Medtronic's new groundbreaking variable-speed pacemakers have helped push its market share back up to 45% from only 32% three years ago and profits to \$87 million from \$38 million.

The architect of Medtronic's rebound is Winston Wallin, a former chief operating officer from Pillsbury. When he was recruited to replace ailing chairman Dale Olseth in 1988, Wallin didn't know much about medical technology, but he did know about quality control. He sent every Medtronic manager to a quality seminar and demanded a detailed review for every step in each manufacturing process—from the way that materials were ordered and checked on arrival to how workers tightened screws.

Under Wallin, rejections have been dramatically reduced. For example, the rejection rate on one battery pack is now almost nil, down from 35% a year ago. It now takes 45 minutes to make batteries, down from 34 weeks in 1984, the firm says. "We are quality fanatics," Wallin boasts.

While product quality was deteriorating, Medtronic's research stalled. They had moved beyond implantable medical products to encompass everything from stress test equipment to cardiac monitor terminals. In the last three years Wallin has ordered researchers to stick to pacemakers and related implantables like heart valves and artery-clearing angioplasty catheters. He has doubled research spending—from \$37 million in 1985 to \$75 million this year.

As a result, Medtronic beat the competition to market in the U.S. with the first variable-rate pacemaker. Dubbed the Activitrac, this device

LARRY KENNEDY



Winston Wallin of Medtronic
"We are quality fanatics."

he size of a 3/8-inch-thick slice of hard-boiled egg, adjusts its speed to the patient's level of activity (see diagram). Until Activitrax, U.S. pacemakers could be set at only one speed. A unit would be run at, say, 70 beats per minute, whether the patient was sleeping or climbing a steep flight of stairs. Thus, strenuous exercise for patients was exhausting if not impossible. Tennis is no problem for patients with the Activitrax.

Activitrax uses a patented quartz crystal as a delicate activity sensor. When a patient moves, the pacemaker responds to the vibration. The more movement, the more frequent the electrical pulses sent to the heart via the lead wire. A computer chip lets doctors program the maximum and minimum rates for the pacer and change them during office visits. A patient's heartbeat can slow to 50 times a minute while he sleeps, rise to 90 as he walks up stairs or to 150 while he rides a bicycle.

"In the past, pacemakers could merely keep the heart from stopping. Now, they can actually make patients feel better," says Dr. Dennis Miura, an assistant professor at New York's Albert Einstein Medical College.

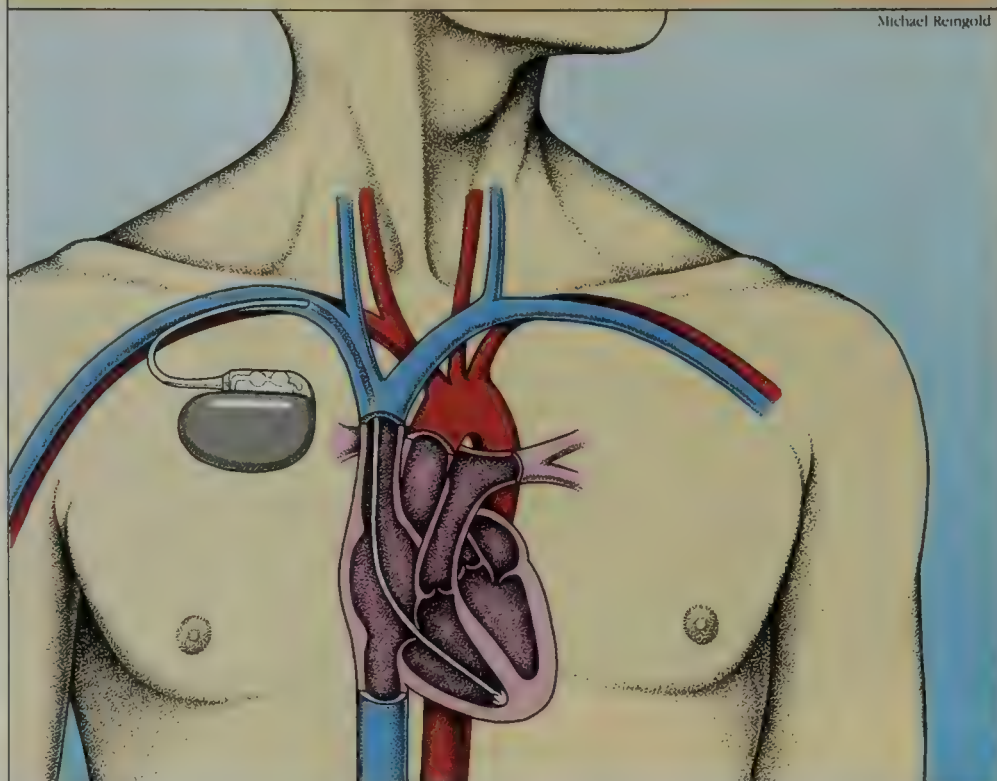
In the two years since it received Food & Drug Administration approval, Activitrax has cornered more than 20% of the worldwide pacemaker market. Naturally, the competition is hurrying to catch up. Several new rate-responsive pacemakers are already available overseas from manufacturers like West Germany's Siemens-Pacesetter Inc., and are awaiting FDA approval for the U.S. market. The Siemens device sends signals not only to one heart chamber, like the Activitrax, but to two—both the heart's right ventricle and right atrium. That is particularly helpful to some patients whose heart chambers pump at different rhythms.

Not to be outdone, Medtronic has more pacemakers up its sleeve. The Activitrax II, which allows the doctor to set a wider range of heart speeds and to set the speed at which the device changes pace, went onto the U.S. market in August. A new line of smaller pacers that can record the patient's heart rate on random access memory chips will go into clinical trials in the U.S. later this month. More than a dozen new Medtronic pacers, including at least six "dual-chamber," rate-responsive models, will be launched within two years.

Lately growth in unit volume has slowed in the pacemaker market to around 3% a year. Wallin needs to diversify, but unlike his predecessor,

The beat goes on

Medtronic's implanted Activitrax pacemaker matches a patient's heart rate to his exertion level. A piezoelectric quartz crystal senses changes in activity and speeds up or slows down the rate at which the pacemaker sends electrical impulses to the right ventricle of the heart.



who got into nuclear imaging and cardiac monitoring equipment, Wallin is focused largely on implantable devices. For example, the company wants to outfit likely heart attack patients with self-starting defibrillators—implantable devices that would sense when a patient is having a heart attack and jolt the heart once or twice with an electrical charge to get it pumping again. Although a successful patent suit by competitor Eli Lilly bars Medtronic from marketing the devices in the U.S. before late 1990, the company is developing the devices in its European labs, where testing will soon begin.

There are other promising new product areas. Medtronic's artificial blood vessels replace clogged arteries

and veins everywhere except the heart. Its blood oxygenators replace a patient's lungs during open heart surgery; and its implantable drug delivery systems reduce dosages and side effects of cancer chemotherapy and painkilling drugs. Wallin also wants to be a major player in the market for cardiac angioplasty devices—catheter-like probes that surgeons use to unblock cholesterol-clogged blood vessels. This market could reach \$1.4 billion in ten years.

Will Wallin's plan to boost growth produce results? "We have a lot of work to do," Wallin says. But having solved Medtronic's product reliability problem and focused the research effort, much of that work is already behind him.

"We could send fresh apples to the moon"

Are you ready for raspberries that stay fresh for weeks instead of days? Corn-on-the-cob that tastes as fresh three months old as the day it was picked? Roses that won't wilt for a month? They're on the way.

Thanks to advances in genetic engineering and packaging processes, scientists have now discovered what amounts to a fountain of youth for agricultural products. "Just as the

Seventies and Eighties were the decades of electronics and computers, the wonders of the 1990s will be new crops," predicts futurist Daniel Burrus of Burrus Research Associates, Inc. of Waukesha, Wis.

Genetic engineers at Agritope, a subsidiary of tiny Epitope (recent nine months' sales, \$2.5 million), a Portland, Ore.-based maker of AIDS tests, have isolated a gene that they believe



Agritope's Al Ferro

Rich Iwasaki

A fountain of youth for fruits and vegetables?

Science & Technology

controls the ripening process. This gene governs the production of ethylene, an agricultural hormone that triggers ripening and rotting in fruits, vegetables and flowers.

Ethylene is what causes flowers to wilt and petals to drop. Food processors spray synthetic ethylene on some crops, like bananas, which are shipped green and stored, to make them ripen. Likewise, processors use other chemicals to extend the life of crops. For example, flowers can be preserved with silver thiosulfate, although the chemical is expensive and poisonous.

But by tinkering with the ethylene-producing gene, scientists think they can custom-design crops that will ripen on their own when they are wanted—without special storage or spraying. You say you need a tomato that ripens in 20 days instead of 10? Or a tomato that would fully mature but would never ripen on its own? No problem. The company will be growing plants—probably flowers—with the new gene within a year, says Al Ferro, Agritope vice president of re-

search and development.

So far, Agritope has applied for a patent on its anti-ethylene gene and is busily striking deals with larger companies. The Agritope process is being partially funded by Sakata Seed America of Morgan Hill, Calif., a Japanese-owned company that produces 80% of the world's broccoli seed. Sakata seeks to develop ethylene-controlled Brassicas—the family of plants that includes broccoli, beets, cabbage, cauliflower, lettuce and turnips. Du Pont is also working with Agritope on cotton and tomatoes.

This development would have a profound impact on world agriculture and food processing. For American farmers it would mean that instead of depending on migrant labor to hand-pick tomatoes or berries individually when ripe, the crop could be machine-harvested in one pass. Then the produce could be picked as needed by the processing plant. "Farmers would no longer have to grow 20% more than they expect to sell to make up for spoilage," Ferro says. "They would sell 100% of what they grow."

Scientists elsewhere have successfully controlled the ripening process without tampering with genes. At Cornell University, Syed Rizvi, associate professor of food sciences, has developed a new way to store fruits

and vegetables. Apples, for example, are currently preserved in expensive storage facilities that keep oxygen levels down by covering the fruit with a heavier gas like carbon dioxide. In contrast, Rizvi's process covers apples with differentially permeable plastic membranes that allow only small amounts of atmospheric gases like oxygen to pass—just enough to preserve the fruit for months. The covered apples are then stored in special air-circulating trays that can be refrigerated with other products, instead of requiring their own gas-filled chambers.

The Cornell process would enable growers and processors to develop different plastic covers for different fruits or vegetables. Rizvi estimates his process could be in commercial use within a year.

What Rizvi likes about longer shelf life is that regional crops instantly gain a much wider marketing area. For consumers it would mean nearly commonplace delicacies. Nearly 90% of all fresh raspberries are grown in the Pacific Northwest and consumed there, because they spoil two days after harvest.

Rizvi explains: "We could deliver fresh produce to Tokyo or Saudi Arabia at lower cost. We could send fresh apples to the moon."—Gary Eisler

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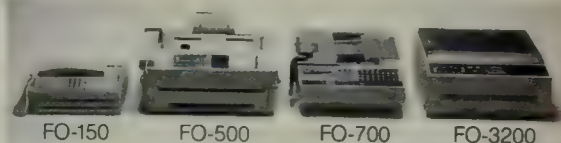
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Personal Affairs

Edited by William G. Flanagan

Anguilla (sounds like tran-quil'-la) had nothing going for it until a dreamer with deep pockets insisted upon putting a luxury resort there. Now it's...

An island of choice

IF A WINTER break in the Caribbean is in your plans, think seriously about Anguilla. This flat, quiet, sparsely populated slice of sand-covered coral, still a British colony, is only a short ferry ride or hop by puddle jumper from St. Martin. And electrification, new roads, water desalination plants and new ways of keeping food fresh for months at a time have allowed a handful of small, expensive resorts to blossom here.

The island's coming of age began in 1984 with the opening of the Malliouhana Hotel, whose owner, Leon Roydon, set out to create a Caribbean version of the legendary Hotel du Cap, in Antibes. He came close—and offers much better weather as a bonus. Malliouhana (the Caribe Indians' name for the island) already ranks among the half-dozen top resorts in all the Caribbean. And it promptly set the tone for the island—to bake and dine in luxury. For most guests, the most rigorous activities are leaving footprints on the pristine beach, bikini watching by the pool-with-waterfall and turning the pages of a bestseller to work up an appetite.

There are palm-lined tennis courts, and you can arrange to go sailing, windsurfing, waterskiing or scuba diving, but in this European-style resort, breaking into a sweat is in bad taste. Malliouhana is for seriously burnt-out cases looking to recharge their batteries, slowly and stylishly.

The open-air restaurant dramatically overhanging the sea is run by the hosting family, which operates *Michele*, a two-star restaurant in Antibes. It boasts a 30,000-bottle

wine cellar that would be rare in New York, let alone the Caribbean. Rare also are the resort's prices. In-season rates for accommodations, done in Brazilian walnut, and featuring basketball-court-size bathrooms, are \$400 a night for a room and \$450 to \$650 a night for a suite.

Less formal and less expensive is the new Coccoloba, once the site of a spartan fat farm, already thriving on Malliouhana rejects and refuseniks. A string of roomy, casual cottages just above two sugary strands, Coccoloba is run, or rather, walked, by E. David Brewer, formerly of Jumby Bay, Little Dix, Caneel Bay, etc., and an expert hand at loosening up and resuscitating the too tightly wound. The first thing that loosens for most guests is the belt. No jackets and ties at dinner here (or anywhere else on the island), though the cuisine is dressed to kill, thanks to a young French chef named Eric Scuiller. Join him on a guest tour of his air-conditioned, hangar-size kitchen. Over a chilled Chablis he reveals the secret of how such an end-of-the-line island manages to offer haute-cuisine—the proximity to St. Martin, which is a major market for food purveyors, and new machines that vacuum-pack butchered meats and fish fillets to keep them fresh for weeks at a time without freezing. Lobster is a lot less of a problem to keep. The local crustaceans are kept in a seawater moat that rings the pool-side bar.

At Coccoloba—sea grape in Arak—rows of the tropical plants separate the beach from the roomy, modern-style cottages. Water sports are

readily at hand including fine snorkeling right in front of the hotel. There's also a tennis program run by Peter Burwash for tuning your game. At sunset, guests gather at the poolside bar to watch the resident flock of pelicans plunge into the flaming sea.

Rooms at Coccoloba run \$240 to \$280 from Oct. 29 to Dec. 16 and \$290 to \$375 from Dec. 17 to Apr. 14, when summer rates kick in—\$160 and up.

Cap Juluca (named after the rainbow god of Anguilla) is the smallest and the newest of the island's luxury hotels, with just 18 units open this season. It's Moorish in design, opulent in style, but simple in operation. If you sincerely don't want to be bothered by anyone, for anything, for day or night, consider Cap Juluca, where week-long stays could pass without your having to us





View from suite at Coccoloba resort, Anguilla
at sunset, pelicans diving into the flaming sea.

BULLI BASS

our vocal cords for anything other than ordering dinner. Breakfast is served on your beachside patio, and you can have one of the cooks prepare lunch and even dinner there, too. The resort's only restaurant is smack on the sea and sports a continental menu with island flourishes.

The pool isn't even completed yet, but with the tepid ocean just inches from the beachside villas, and with bathtubs built for two in each room, no one seems to notice.

The resort was conceived and is run by a well-seasoned British couple, Robin and Sue Ricketts, who had a hand in (and still own a piece of) Malibu. In season, rates are \$300 per night for a luxury double, \$525 for a one-bedroom suite, and \$725 for a two-bedroom suite.

The accommodations at Cinnamon Reef are not quite in the same league as these three new resorts, but it has a beautiful setting. The bar and dining room, high above an azure bay, are worth a visit at any rate, and the bay-front beach is just as tempting as any other on the island.

Rates from November through April: \$180 to \$275 a night for a one-bedroom villa; \$140 to \$200 for a one-bedroom garden suite; \$300 to \$450 for a two-bedroom beachfront suite.

There are also luxury condos to be rented on the island, at Cul de Sac, Carimar Beach and Cove Castles, and a host of less-than-luxury-class accommodations. For more information contact the Anguilla Department of Tourism office at (516) 673-0150.—W.G.F.

Giving so it doesn't hurt

Americans are a charitable lot, and that's why scams abound—too many fundraisers taking more in commissions and fees than they channel to the intended beneficiaries.

A recent study of fundraising by telephone in Connecticut, for example, found that only about one dollar in every four wound up as the givers intended; the rest went into the fundraisers' pockets. Says Connecticut Assistant Attorney General David Ormstedt, who conducted the 1987 study: "In essence, a charity can spend whatever it wants for fundraising, and that has opened the door for a lot of con artists."

There is yet another trap for the unwary giver—organizations that piggyback on the reputations of established charities that have similar-sounding names.

Ever heard of the Cancer Research Society? It sounds legitimate enough, but it is not even a distant cousin to the Cancer Research Institute, the 35-year-old charity that spends some \$2.7 million annually on immunological research. The Cancer Research Society, in contrast, is a family-run operation that helps cancer patients travel to and from local hospitals in Redlands, Calif.

It raised an estimated \$300,000 last year, mainly by sounding like the CRI—and listing itself more prominently in telephone directories across the country. The giant CRI did a little investigating and found that between 1973 and 1985 only 9% of the funds raised by the California charity went to a cancer-related activity. The rest? No one is quite sure. The California attorney general's office is now investigating.

In April a federal court in New York awarded CRI \$38,000 in damages and enjoined the California group from using the name Cancer Research Society. It now calls itself the United Cancer Research Society but is still listed in many telephone books under the old name.

An accomplice to such abuses has been the U.S. Supreme Court. Last June it ruled that charities or their professional fundraisers cannot be forced to disclose how their funds are spent. And even if the law provided no shelter, authorities cannot hope to police every one of the 422,103 tax-exempt organizations listed in the U.S. So how do you check out a charity?

For openers, make sure the charity does indeed have 501(c)(3) status from the Internal Revenue Service, so your contribution will at least be tax-deductible. You can call the IRS at 800-424-1040. But simply being listed means little. The United Cancer Research Society still has tax-exempt status, for example. About all a charity need do to get such status is apply to the IRS.

If you are thinking of a sizable gift, ask for financial statements and specifics on where donations go. But be aware that the figures can be misleading. Expenses incurred in mail soliciting, for example, could be lumped under charitable expenditures, rather than under fundraising, simply by including some advisory health information ("See your doctor") in a mailing piece.

Also check with the state, usually the attorney general's office, to see if there have been any problems with the charity. Remember to ask the state for the charity's annual report and for federal form 990, which is the charity's tax return. All charities have to spend money to raise money, but here's a good rule of thumb: Fundraising expenses should not exceed 35% of what is collected.

Top charities, which seldom resort to high-cost, high-pressure telephone solicitation, spend considerably less than 35%. The Salvation Army, for

MANHATTAN	
Continued From Previous Column	
-6286	CANCER RESEARCH INSTITUTE—
-7549	Memorial Donations & Bequests—
-0254	Dr. Cal
-7970	Toll-Free-Dial '1' & Then 800 223-7874
	Research And Medical Information
	1225 Park Av 722-8547
-9622	CANCER RESEARCH SOCIETY—
	MEMORIAL DONATIONS & BEQUESTS
	Toll-Free-Dial '1' & Then 800 222-1533
-3009	Cancer Research & Treatment Fund
-1506	Inc 1440 York Av 288-6604
-1408	CANCER SOC AMER N Y CITY
-8675	DIV INC 19 W 56 586-8700
-7838	Cancer Research Society
-7607	1225 Park Av 722-8547
-6928	Cancer Research Society
-0449	1225 Park Av 722-8547
-6448	Cancer Research Society
-7817	1225 Park Av 722-8547
-1879	Cancer Research Society
-5105	1225 Park Av 722-8547
-1871	Cancer Research Society

The tiny Cancer Research Society's listing in the Manhattan phone book

example, which makes extensive use of volunteers, spent only 5% of the estimated \$900 million it collected in 1987 on fundraising, and only 10% on management. The American Red Cross, one of the largest and best known charities in the U.S., collected \$972 million in 1987, and 3% of that went for fundraising, another 6% for management. The American Cancer Society collected \$304 million last year, and 15% went for fundraising, 8% for management.

There are two groups that monitor charities: the National Charities In-

formation Bureau, and the Philanthropic Advisory Service of the Council of Better Business Bureaus at 703-276-0109.

The NCIB, 19 Union Square West, New York City 10003-3395, publishes a free "Wise Giving Guide" five times a year. It lists 400 national charities and notes any violations of NCIB standards. In addition, the guide provides a list of charities that fail to respond to NCIB questionnaires—the fiscal equivalent of refusing to take a drug test.

If you have a question about a specific charity, NCIB will also furnish its report on the charity, listing background, the amount of money that's spent on fundraising, and other useful information—such as how often the board meets and who attended the meetings. You can get up to three reports free of charge. Simply write NCIB or call 212-929-6300.

The CBBB has a bimonthly booklet "Give But Give Wisely," which lists the charities that draw the most questions from the public and evaluate them for compliance with CBBB standards. It also lists charities that consistently refuse to supply information. To get a copy, send \$1 and a stamped, self-addressed envelope to Philanthropic Advisory Service, Council of Better Business Bureaus, 1515 Wilson Blvd., Arlington, VA 22209.—Edward Giltenan

Prime investing

If your broker calls with a pitch for a new \$55 million closed-end fund called Pilgrim Prime Rate Trust, give a listen—at least for the laughs.

The fund, which debuted last May, promises you a return very close to the prime interest rate—hence its name. It buys slices of floating-rate bank loans and passes on the interest to investors. The corporate loans are tied to the prime rate (now 10%), so you supposedly get more yield than dowdy money markets or certificates of deposit. And there's no need to worry about rising interest rates, as you would with a long-term bond, since the return rises with the prime rate. Problem is, once you get past the broker's story, this deal stinks.

First, investors get hit with a 3% sales commission off the top, so you pay \$10.31 for an asset worth \$10. Assuming no movement in interest rates, your total return the first year, after you account for the load, comes out to a measly 6.7%. Stay in Pilgrim for the next two years under the same

interest-rate conditions, and your net is an estimated 8.2%, according to Miami, Fla.-based closed-end fund expert Thomas Herzfeld.

Unlike typical closed-end funds, Pilgrim issues shares continually, so there is even less chance for your shares to trade at a premium to net asset value than there is with conven-

tional closed-end funds. Worse, because the fund itself is constantly issuing new shares, your shares are not very liquid. (Pilgrim at present lets you redeem your shares quarterly at the prevailing NAV, currently \$1.00. You still lose the 3% load, but it's better than scrambling on the open market. One recent open-market quote was \$9.)

Worse yet, if interest rates begin to sink—and remember, your yield would drop with the prime—and you decide to abandon ship before holding on a full year, Pilgrim will take up to a quarter of your dividend in early withdrawal charges. Pass this deal by.

But while you have your broker on the phone, you might ask about brokered certificates of deposit. Despite rate banks and S&Ls are still paying hefty rates averaging 7.7% on six-month and 8% on 12-month certificates. Better yet, brokers are offering CDs at even higher rates. As long as your balance isn't over \$100,000, you'll get every penny back even if the bank folds.

Another way you can top Treasury rates, yet still get the the same gov-





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ernment protection, is with Cooperative Utility Trust Certificates. Issued by electric utilities, like Cajun Electric Power Coop in Baton Rouge, La., they are callable in ten years. So investors get yields up to 75 basis points higher than comparable Treasuries.

Take the \$500 million in certificates issued by Cajun Electric in March. The 5- and 10-year maturities made up only \$60 million of the issue, and they were gobbled up by institutions. But the \$440 million of 9.5% 30-year certificates can be had in

\$1,000 lots. This bond has been trading at up to 73 basis points above the long Treasury. Recent yield: 9.7%. Drawbacks: Unlike Treasuries, the co-op certificates are subject to state and local taxes. And they may be hard to find.—E.G.

Does the FBI have a file on you?

Curiosity finally got to a retired New York manager for a Forbes 500 company who was a longtime supporter of liberal causes. He wanted to find out if the Federal Bureau of Investigation had ever kept tabs on him. To his surprise, finding out proved to be a snap. All he had to do was write the bureau and invoke a little-known federal statute called the Privacy Act.

The law, a companion to the better-known Freedom of Information Act (FOIA), generally gives individuals the right to see the contents of files maintained about them by federal Executive Branch agencies, such as the FBI, the State Department and the Defense Department. Not covered by this law are files maintained by Congress, the judicial system or state governments. (Many states and courts, however, have similar access rules for their own files.)

In seeking your own federal file, invoking the Privacy Act is often better than the FOIA, although many people cite both. The Privacy Act affords agencies somewhat narrower grounds for withholding data about yourself. Whereas information released under the FOIA theoretically becomes a public record that anyone can get hold of, material subject to the Privacy Act generally can't be released to others without your consent, at least during your lifetime.

You should mail your letter—it doesn't have to be certified or registered—to the relevant agency's main office (usually in Washington) marked "Attention: Freedom of Information/Privacy Acts Office." Each agency has one. For the FBI, it is often useful to send a duplicate request to any field office that might have a file.

To verify your identity and speed

where it might be located.

If you query the Defense Department and served in the military, include your military identification number, year of service, ranks and unit.

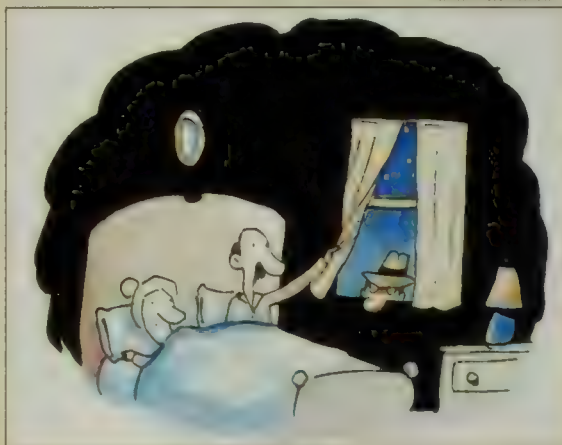
Despite a heavy load of requests, both the FBI and the Pentagon have good records of acknowledging letters within a few weeks and, within a few months, either providing located files or stating that none exist. However, in sensitive cases delays of a year or more aren't unknown.

Although the Privacy Act allows agencies to levy reasonable fees for their efforts, most don't charge for searches and often photocopy most files for free.

Not everything in a file is always released. Exceptions include sources of confidential information in criminal cases, personal privacy of others, matters relating to national security, income tax returns and certain law enforcement materials. Legislation also largely exempts the Central Intelligence Agency. However, even files improperly compiled (via politically motivated surveillance, for instance) are subject to release.

Not satisfied with the release? You can file an administrative appeal and even sue. The mere filing of a lawsuit often persuades the agency to cough up more information.

What about the New York corporate manager who supported liberal causes? The FBI evidently couldn't have cared less. It reported it had no files on him.—William P. Barrett



your inquiry, all Privacy Act requests should be acknowledged by a notary. Your letter should cite the Privacy Act by name and statute number—5 U.S.C. 552a—and request "all information concerning myself in your files." Give identifying personal data such as full name, place and date of birth, Social Security number and current and previous home addresses. State as specifically as you can why such data might be maintained or

Caveat vendor

A woman on the West Coast recently decided to sell a Kandinsky oil that had been in the family for 50 years. "My father had bought it for \$350," she said. The major auction houses courted her. So did dealers. "One dealer offered \$1.5 million," she said, "but that meant he could get a lot more, right? So why couldn't we?"

Good question. You may not be sitting on a masterpiece, but what about the Tiffany lamp that you picked up 20 years ago? If you're thinking of selling any object of value, how you

do it can make a big difference in what you net. If it is a masterpiece, of course, the difference can be enormous. Says New York art collector Stuart Pivar: "Choosing the right gallery or auction house can mean the difference between getting \$500,000 and \$2 million."

For starters, decide whether to sell through an auction house or a gallery. Many galleries work on a commission basis (about 20% under \$1 million, 10% over), but a good number also buy outright from the owner. The

seller gets the agreed-on price either way, and that's that.

Galleries also offer a greater degree of anonymity. This can be an important factor since selling an artwork can start rumors that the seller's financial condition is not as hot as everyone thought. "We have clients who would be furious if it became known by the *New York Times* what they sold," says Joan Washburn of the Washburn Gallery in New York.

A gallery is also better positioned to avoid the dreaded phenomenon known as "burning" an artwork. That bit of art world argot is sure to be heard when your object does not sell

and everyone in the world knows it. When a piece gets burned, it's generally assumed that the hapless work of art has something wrong with it. Says Joan Washburn: "The more skillful the dealer is, the fewer people you need to show the artwork to."

The auction houses, of course, have their own advantages. The two giants, Sotheby's and Christie's, combine the most sophisticated marketing and expertise to be found. With worldwide exposure and experts in everything

from doorknobs to diamonds, they provide the ease of one-stop selling.

Their contracts are similar, quoting a 10% commission on objects sold under the hammer for \$5,000 or more and settlement within 35 days. And, as with so much in the art world, most items in the contract are negotiable. Chances of playing one house against the other for sweeter terms rise in direct proportion to the object's value. "It happens all the time," sighs Warren Weitman Jr., head of trusts

and estates at Sotheby's.

Above all, start with a good appraisal from a disinterested third party. The Appraisers Association of America in New York can refer you to one. If you hire a dealer, make it clear he will not sell the work for you. Also consider lending the work to a museum exhibit. Contact curatorial departments for information. For a loan of two months you could add 15% to the value.—Christie Brown

Sotheby's Art Market Trends

Index sectors	Aug 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years	
									% change	average annual % change
Old Master paintings	403	403	349	303	217	nil	+15.5	+33.0	+85.7	+13.2
19th-century European paintings	361	361	303	250	197	nil	+19.1	+44.4	+83.2	+12.9
Impressionist & Post-impressionist art	1,091	1,091	661	432	298	nil	+65.1	+152.5	+266.1	+29.6
Modern paintings (1900-1950)	1,090	1,090	666	429	275	nil	+63.7	+154.1	+296.4	+31.7
Contemporary art (1945 onward)	728	728	597	524	366	nil	+21.9	+38.9	+98.9	+14.7
American paintings (1800-pre-WWII)	958	958	789	687	501	nil	+21.4	+39.4	+91.2	+13.8
Continental ceramics	407	407	320	290	272	nil	+27.2	+40.3	+49.6	+8.4
Chinese ceramics	684	684	550	486	445	nil	+24.4	+40.7	+53.7	+9.0
English silver	388	388	349	338	219	nil	+11.2	+14.8	+77.2	+12.1
Continental silver	260	260	201	192	156	nil	+29.4	+35.4	+66.7	+10.8
American furniture	469	469	452	380	239	nil	+3.8	+23.4	+96.2	+14.4
French & Continental furniture	355	355	319	285	249	nil	+11.3	+24.6	+39.8	+6.9
English furniture	784	784	594	447	309	nil	+32.0	+75.4	+153.7	+20.5
Aggregate index*	660	660	475	369	275	nil	+38.9	+78.9	+140.0	+19.1

Basis: 1975 = 100 (\$)

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*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Coming attractions

A strong autumn season is in prospect at the major auction houses.

On Oct. 19 Christie's will offer a 407-carat diamond—second in size only to the Cullinan diamond. The stone was cut down from an 890-carat stone to make it flawless. With jewelry fetching record prices, the value of this stone is estimated at more than \$20 million.

Christie's Nov. 9 sale will be a signal of price strength in the contemporary art market. The sale, expected to bring over \$20 million, features "White Flag" by Jasper Johns and "Frieze" by Jackson Pollock. Less than a week later, on Nov. 14, Christie's will auction impressionist and modern works from the collection of William and Edith Goetz (her father was Lou-

is B. Mayer) worth an estimated \$50 million. Included is a bronze dancer by Degas (estimate, \$8 million to \$10 million) and paintings by Picasso, Monet, Cézanne and Modigliani.

Sotheby's jewelry sale on Oct. 17 will star a 48-carat Burmese ruby (estimate, \$15 million).

On Nov. 10 Sotheby's will auction paintings from the Victor Ganz collection. Included are six Picassos—among them, "Bird Cage" (estimate, \$7 million to \$10 million) and "Woman in a Red Hat" (estimate, \$4 million to \$5 million).

Sotheby's continues on Nov. 11 with the sale of important works by Renoir, Degas and Gauguin, among others. Degas' pastel "Lowering the Curtain" is estimated at \$7 million to \$9 million. Renoir's "Bather" is estimated at the same.



407-carat gem cut from 890-carat stone



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A stint in the military or in the Peace Corps may be better preparation for a business career than going after an M.B.A.

Life experience versus case studies

By Fleming Meeks

ACCORDING to a recent report by the American Assembly of Collegiate Schools of Business, corporate recruiters overwhelmingly say leadership and interpersonal skills are key to what they look for when recruiting M.B.A.s.

But are M.B.A.s trained for dealing with people? No, says the report, agreeing with H. Ross Perot, who complains that lack of leadership training is "one of the most glaring deficiencies" of the business school curriculum.

Not surprisingly, then, recruiters are looking beyond the M.B.A. pool for managers with leadership ability. One such executive is Gregory Vahle, vice president of personnel-corporate staff at Pfizer Inc. He actively recruits junior military officers to fill the ranks of lower and entry-level management. Vahle believes that proven

performance, not just an academic degree, is what matters. He argues that former military officers come aboard with an edge. Unlike your typical young American, people trained in the military know what it is like to get their orders both obeyed and respected. "They know what it's like to manage people, to manage a function and to manage a budget," Vahle says. "They've got good business savvy."

Thomas O'Reilly, as former director of executive resources at Chase Manhattan Bank, was strong on former Peace Corps volunteers. "Their adaptability, their tolerance for ambiguity, and their ability to relate to a wide variety of people" make them ideal candidates to become managers, O'Reilly says.

Thus while the business schools work harder than ever to market their product as the essential passport to business life, a good many young people are rising through the executive ranks without benefit of this particular union card. Among them:

On joining the Navy in 1965, 22-year-old Dartmouth grad *Whitney Goit II* picked up his tennis racket and golf clubs and headed for Officer Candidate School, in Newport, R.I. Now 45 and a senior vice president for sales and marketing at Arts & Entertainment Cable Network, Goit recalls that he never got a chance to work on his backhand during the 16 weeks of OCS. But within a year 23-year-old Ensign Goit was running the midnight watch on a \$200 million, 505-foot ship, with responsibility for 1,000 men. "You're there, and you do it," says Goit, who later captained a gunboat in Vietnam. "And you're amazed at what you can do."

An English major in college, Goit

picked up his business skills in a variety of sales and marketing jobs before joining the fledgling cable network four and a half years ago. A&E, which now has 35 million subscribers, became profitable last year on revenue of around \$40 million.

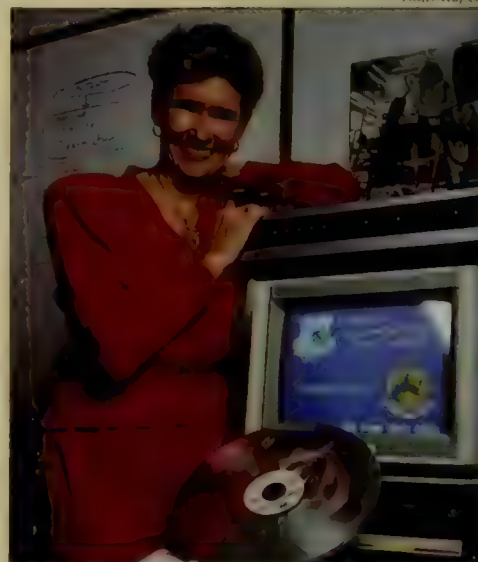
Goit's Navy experience, he says, seasoned him on the fundamentals of management, which he describes as "learning to apply common sense to difficult decisions." Equally important, he says, it gave him a close-up view of how organizations function. You can study the theory of organizations in business school, he points out, "but in the military you live it."

Teacher-turned-entrepreneur *Mary Jordan-DeLaurenti*, 50, says teaching is an excellent background for business because teachers "know how to learn." Her Dallas-based training firm, Jordan-DeLaurenti, Inc. (198 revenues, \$5 million), employs 25 people and provides management training for firms like IBM, Xerox and Exxon, as well as job-specific training and management services for the Federal Aviation Administration, the Air Force and the Army. Among other things, her firm develops training packages (interactive video) for the Air Force on maintenance of the B-11 bomber, and trains the Army on the LANCE and MLRS missiles. Among her top managers: former teachers and military officers.

Jordan-DeLaurenti's journey from teacher to the business world has an additional twist. From 1955 to 1969 she not only taught English, math, social studies and music in parochial schools in Pennsylvania and on Long Island, but she was also a nun with the Sister Servants of the Immaculate Heart of Mary.



Arts & Entertainment Cable Network's Whitney Goit II
"You're there, and you do it."



J-DL, Inc.'s Mary Jordan-DeLaurenti
Teachers make good managers.



Disneyland General Manager Bob Gault
The former fry cook doesn't get too cocky.

In 1970, after earning a Ph.D. in educational administration from Notre Dame, Jordan-DeLaurenti left the order and went to Lewis University in Lockport, Ill., where, as dean of continuing education, she built the program from 25 to 750 students in just 18 months. Then, in 1975, after stints at General Motors and Martin Marietta, she started J-DL, Inc.

While she attributes a large measure of her success to a sense of self-discipline developed during her years in the convent, her management experience came straight from her days as a teacher. "You are a manager in the classroom. You are managing 25 to 30 people all day long. You manage how they learn, what they learn, when they learn; and you manage their problems."

Robert Gault, 39, general manager of operations at Disneyland, remembers the exact date—July 3, 1968—when he started as a part-time fry cook in Tomorrowland. Why? Because it turned out to be more of a personal window into the future than anyone might have imagined. Six years later, after leaving Long Beach State University in his junior year, 24-year-old Gault was promoted to supervisor of Adventureland and Frontierland and was managing 450 employees and a multimillion-dollar budget.

Disneyland, of course, is a highly regimented operation that doesn't leave the training of its managers to chance. Gault picked up extensive training in-house at its Disney University "college of food" and "college of merchandising." But it was his from-the-ground-up training, he says, that has most influenced his career. Of his apprenticeship he says, "The most important thing is that you

learn not to get too cocky or to think that you know things so well that you can't continue to learn." As a result, Gault, who believes that 75% of all management problems can be solved with common sense, still takes suggestions from anyone—including fry cooks—who think they can improve efficiency and profits.

After seven years of moving offshore oil rigs around the Gulf of Mexico, the North Sea and the western coast of Africa, Portland, Me.-based real estate developer William Gaynor, 36, says the risks involved in the real estate business are a cakewalk. A former casino busboy, Gaynor had worked his way up to the public relations department at the then Sahara-Tahoe Hotel & Casino before going to sea in 1976. In 1982, while still a deck officer in the merchant marine, he started buying and rehabbing apartment buildings in Portland.



NYSE Executive V.P. Sandra Jaffee
From the mud hut to Wall Street.



Real estate developer Bill Gaynor
Going to sea taught him teamwork and cooperation.

Since coming ashore in 1985 he's built his company, Premier Properties, to \$5 million in revenues. Current projects include developing a former Coast Guard station in Portland harbor into a private yacht club.

The skills he learned at sea—frequently 30 to 45 days at a stretch managing a crew of six to twelve—have served him well now that he's come ashore. He cites cooperation and teamwork—"One minute you're telling somebody what to do," he says, "and the next minute you're asking him to pass the salt." But more important, he says, "dealing with millions of dollars' worth of equipment in a very hostile environment under very strained conditions and still getting the job done" left him with the sense that "anything you want to do is really achievable." Observes Gaynor: "Saddling yourself with a bunch of debt backed by a bunch of real estate is easy by comparison."

Former Peace Corps volunteer Sandra Jaffee, 43, is executive vice president and chief administrative officer of the New York Stock Exchange. "I may be the only person you'll ever meet in business who is fluent in Amharic," she says, harking back to the two years she spent living in a mud hut in Addis Ababa, Ethiopia. A political science graduate of Tufts University, she went to Ethiopia with the Peace Corps in 1966, originally to teach ancient history at a school run by French Canadian Jesuits. However, when the 22-year-old Jaffee found that most of her ninth-grade students were older than she was, she realized they would be better served by jobs than by the history of past civilizations.

She thereupon proceeded to set up the first jobs training center in East

Africa. Before she left two years later, the private, self-sustaining center had trained several hundred workers in skills ranging from restaurant work to driving tractors. Among the gradu-

ates: several employees at the Addis Ababa Hilton.

Sandra Jaffee, who spent two years with New York City's Budget Bureau and 13 years with Citibank before going to the stock exchange in 1986, recalls: "The Peace Corps just gave me enormous confidence in what I could do."

Hiring M.B.A.s is still the safe thing to do for executives with hiring responsibilities, but those who are more interested in uncovering talent than in covering their backsides are casting increasingly wide nets and taking chances on bright young people who do not necessarily have the conventional credentials. ■

Discussing the undiscussable

SINCE DEATH OF retirement is inevitable, how does a good chief executive make sure that his successors are at least as able as he is? Harvard Business School professor Jeffrey Sonnenfeld has written a fascinating book, *The Hero's Farewell: What Happens When CEOs Retire*, dealing with this inevitable topic. The book, out this month, details four different styles of executive departure:

Monarchs: Strong-willed and even imperial in style, these visionary leaders do not leave office until they are forced out through death or internal revolt. Their exits are rarely graceful, and in their wake they tend to leave power vacuums filled with quarreling, backstabbing subordinates. Witness the departures of William Black of Chock Full o' Nuts and Juan Trippe of Pan American World Airways. The reader can fill in other names from his or her own experience.

Generals: They agree to step down, but with great reluctance. Once they leave office, they connive to get invited back, often to rescue the company from problems created by their own handpicked successors. The machinations of corporate Generals have sparked some of the most dramatic battles in American business. Generals, says author Sonnenfeld, include Harold Geneen of ITT, William Paley of CBS, Robert Woodruff of Coca-Cola, and A.W. (Tom) Clausen of BankAmerica.

Ambassadors: They leave office gracefully, and frequently serve as postretirement mentors. They remain on the board of directors for some time, but do not try to sabotage their successors. Ambassadors provide continuity and counsel. Exemplary corporate Ambassadors are IBM's Thomas Watson Jr., Albert Gordon of Kidder, Peabody, David

Ogilvy of Ogilvy & Mather, Irving Shapiro of Du Pont, and Charles Adams of Raytheon.

Governors: They rule for a limited term of office, then shift to other vocational outlets upon retirement. Despite graceful exits, Governors maintain little continuing contact with their firms once they leave, and tend instead to end up in pursuits like public service. Governors include David Rockefeller of Chase Manhattan Bank, Reginald Jones of General Electric, Thomas Carroll of Lever Brothers,

and subordinates must be cautious about threatening such leaders since they are quick to squelch any hint of rebellion. It's a touchy problem but any board that avoids it is building up trouble for later on.

Generals often groom qualified successors, but later undermine them once they've stepped down. How do you handle Generals so that, when the time comes, they will leave without too much pressure? Boards should find postretirement projects for them that provide status (e.g., Chairman Emeritus) but little real influence over corporate decision-making.

If a board does ultimately find it necessary to bring back a General in a crisis, it should set a deadline for his departure as well as establish specific criteria for determining when the crisis is ended. That is exactly what the board of Pillsbury did in February when it brought back retired chief executive William Spoor as an interim chairman to replace his own handpicked but ineffectual successor, John Stafford. As per the terms of his deal, Spoor stepped aside in August after the board finally succeeded in

selecting a permanent new chairman, Philip Smith.

Boards that have to deal with a departing Ambassador have an easier time of it since Ambassadors characteristically develop definite and workable succession plans. One of the best examples was the transition, in 1981, at Du Pont between Irving Shapiro and Edward Jefferson. Shapiro carefully groomed Jefferson for the job of chief executive and then stepped aside to become chairman of the board's finance committee.

Sonnenfeld doesn't offer much advice for timid boards reluctant to tackle a ferocious old boss, but he does raise interesting questions as to a board's responsibilities. Whether they like it or not, directors' duties surely include making every effort to ensure successful successions.—Ronald Bailey



Harvard Business School's Jeffrey Sonnenfeld
Offering advice on executive departures.

ers, John De Butts of AT&T, and Royal Little of Textron.

Says Sonnenfeld: "Handling the departure of the chief executive is the most difficult, sensitive task that a board of directors must manage." Sonnenfeld has worked out some advice for boards for dealing with corporate succession issues.

For example, both Monarchs and Generals frequently attempt to sabotage the succession process by designating weak or underqualified successors. So boards need to insist early on that the boss put forth a long-term exit plan that includes the development of suitable candidates and a target date for stepping down. Boards at such companies also need to stress the development of deeper executive strength within the firm. Yet officers



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Faces Behind the Figures

Edited by Robert T. Grieves

Penske prepares



Roger Penske of Penske Corp

He's found something more exciting than racing cars.

Remember Roger Penske? He's the former champion race car driver who turned a Philadelphia Chevrolet dealership into the privately held Penske Corp., a \$2-billion-a-year (revenues) joint venture empire with General Motors and GE Capital as major partners.

Things are stirring at Penske Corp. these days. Penske, 51, recently bought out Hertz' stake in the firm as well as part of GM's interest in a diesel engine manufacturer that is also part of the company. Meanwhile, the former racing champion has started up a new truck leasing operation in partnership with a division of GE.

As Penske explains it, the maneuvering is all part of a deployment campaign designed to create a transportation giant that can be taken public. Penske Truck Leasing, his new joint venture with GE, is already number two in the truck leasing business, behind Miami-based Ryder System. His engine company, 50-year-old Detroit Diesel, controls 90% of the market in marine engines for pleasure craft over 36 feet long. "We thought we could sell our two-cycle diesel engines at

the rate of 2,600 a month," says Penske. "But the orders are coming in at 4,000 a month."

After graduating from Lehigh University with a degree in business administration in 1959, Penske became a sales engineer for Alcoa. In the early 1960s he became a leading professional race car driver. A few years later he became general manager of a Chevrolet dealership in Philadelphia, and eventually bought that dealership. Penske still heads a highly successful racing team, but he no longer races, because the insurance is too high. Does he miss it? "I don't miss it at all," he says. "Business is much more exciting."—R.T.G.

Waiting game

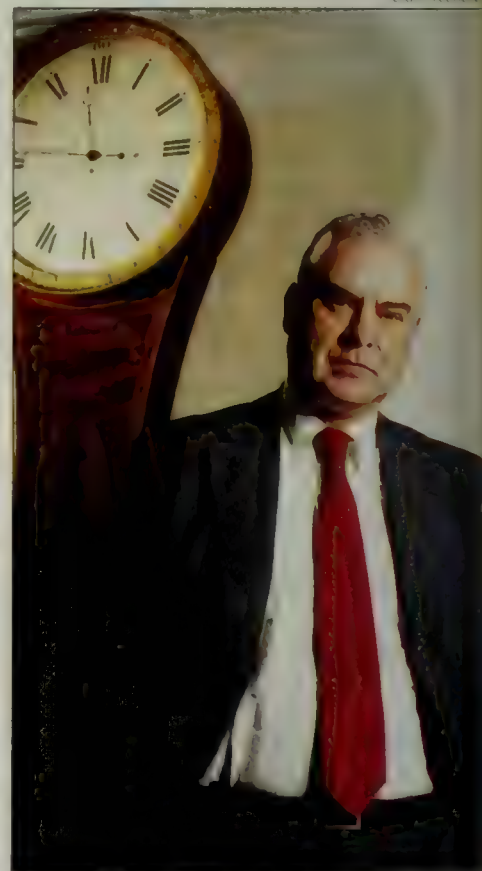
We're optimistic," says J. Carter Bacot, chairman of the Bank of New York. "If the appellate court rules in our favor, we could have a merger within a few months."

Bacot is talking, of course, about his bank's yearlong, up-and-down takeover attack on Irving Bank Corp. In

early September the Federal Reserve Board gave Bacot his third extension to pursue his \$1.3 billion hostile tender offer for Irving. That was after Irving's white knight, Banca Commerciale Italiana, dropped its bid for 51% of Irving. Bacot is now awaiting the New York State appellate court decision on several issues concerning the merger, including whether 10% of Irving's stockholders can call a special meeting to put Bank of New York's offer to a vote.

Back in 1976 the courtship was the other way around as Irving discussed merging with Bank of New York and it was the latter that balked. So why is it today different? "At that time the stakes were much bigger than we were and we were very much involved in overseas banking," says Bacot. "We weren't. Now we've grown, and our lines of business are more complementary." If Bacot's merger effort bears fruit, the resulting bank would be the nation's 12th largest, with assets of about \$40 billion.

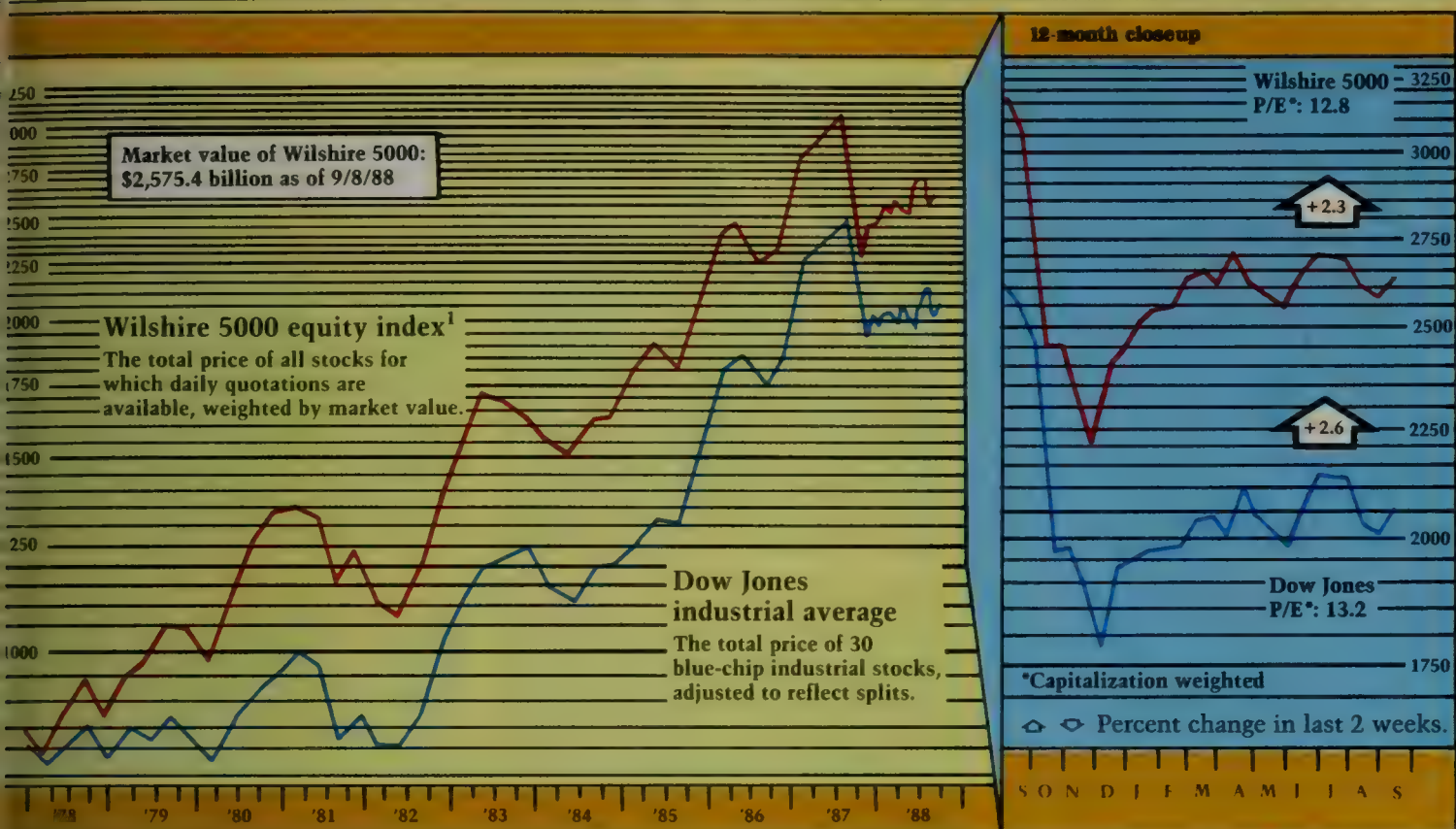
Bacot, 55, thinks the takeover attempt, though costly, has had an upside—for Irving if not for Bank of New York. "We've spent \$15 million so far and there's been some pressure on our stock from analysts who ask when we're going to wrap this up," he says. "But since we started, Irving has been doing the right things. It's reduced staff by 1,200 so far, sold off foreign loans and gotten rid of its interest in



Bank of New York's J. Carter Bacot
A merger within a few months?

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



The bright side of dull news. The Dow posted a two-week gain of 2.6%, but it still closed 95 points below its July postcrash closing high. Wall Street isn't patently bearish, but the mood is more than a little sullen—lackluster trading volume and a new-issues market that looks all but dead. Presently, the number of IPOs has reached its lowest level in 12 months. There is, of course, a flip side to all this: A recent Salomon Brothers research report indicates

that the decline in volume is not a cause for concern; what would be troublesome are declining prices on heavy volume. The fact that bearish investment advisers are sitting on loads of cash also has its cheery side—some of it could eventually enter the market. A hot market in new issues, in any case, is no guarantee of good times ahead. There was a 12-month high number of new offerings in September 1987, just before the October crash.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ²	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.1	1.4	1.2	1.3	0.1	0.2
in last 52 weeks	-15.3	-15.7	-19.9	-15.2	-15.5	-14.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ³		P/E multiple		Dividend yield		Growth profile ⁴		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over \$35	under \$4
in last 4 weeks	1.5	2.1	1.6	1.9	0.6	1.3	1.5	1.2	1.6	0.7	1.1	0.5
in last 52 weeks	-10.8	15.5	15.7	5.6	-8.1	-1.3	2.4	17.8	13.8	1.5	-7.2	9.2

¹Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. ²Based on sales. ³A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. ⁴A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

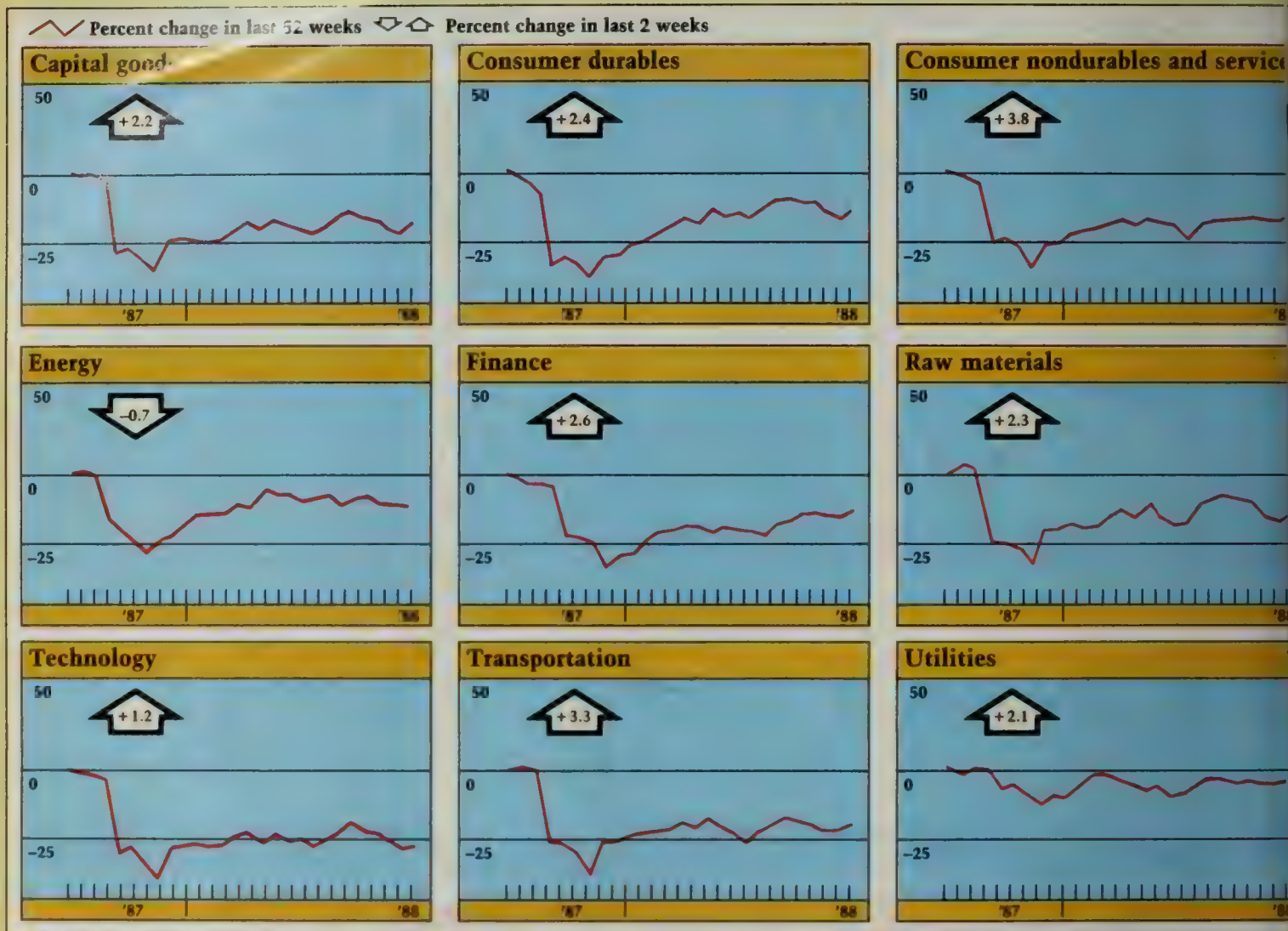
Note: All data for periods ending 9/8/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Oil on the floor. As oil prices dropped, so did the prices of energy stocks. During the past two weeks this was the only sector to show a loss. Hardest hit was Odeco, an oilfield service firm, which lost over 10% of its market value. This stock traded at 55 in 1980 when its sales were almost \$700 million. Shares now change hands for 15, while its sales have been trimmed to less than \$400

million. Analysts expect Odeco to lose 85 cents per share this year. Other big energy losers were Baker Hughes, Dresser and Transco, all of which dropped by more than 5%. Not surprisingly, airline stocks staged a strong performance, since fuel costs account for 10% to 20% of the revenues. The transportation sector, which includes the airlines, advanced by 3.3% over the last two weeks.



What the Analysts Think

Fear of the unknown. Security analysts tend to be overly optimistic in their long-range forecasts. Not now. With a presidential election just around the corner, analysts pro-

ject only a 10% gain in earnings for the Forbes Sales 500 in 1989. That's only about a quarter of the gain that they expect this year.

Forecasting the Forbes Sales 500		
Performance period	Average earnings per share	P/E
latest 12 months	\$3.19	11.9
1988 estimates	3.59	10.5
1989 estimates	3.96	9.6

Rank based on change in estimate	Sector	Estimated 1988 EPS	P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Energy	\$3.06	11.9	0.59%	1.31%
2	Raw materials	3.19	9.5	0.54	1.40
3	Consumer durables	4.64	11.3	0.16	1.24
4	Capital goods	2.64	14.0	0.14	0.15
5	Consumer nondurables	2.44	13.4	-0.13	-0.37
6	Utilities	2.40	10.0	-0.22	-0.30
7	Technology	2.96	11.1	-0.28	-0.33
8	Finance	3.43	8.6	-0.29	-1.28
9	Transportation	2.32	11.2	-1.03	-1.61

These projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Data for periods ending 9/8/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

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Bull & Bear Group charges its funds high fees. So the management company must be getting rich, right? Alas, no: It's doing just as badly as the funds.

Many unhappy returns

By Gretchen Morgenson

IF YOU THINK investing in a fund management company is the way to riches, consider the sorry tale of Bull & Bear Group, a New York-based family of nine mutual funds. In the eleven years since Bull & Bear was born, a decade that could not have been better for stocks, bonds and public mutual fund companies, B&B has lost more money than it has made. This, in spite of the fact that Bull & Bear charges some mighty high fees for managing money.

If it's any consolation, shareholders in the fund adviser have some company: shareholders in the funds themselves. In the ten years through June 1988, annual returns in the company's two oldest equity funds, Capital Growth and Equity-Income, averaged 14.5% and 13%, respectively, against 16.2% for the S&P 500. The newer funds, for the most part, aren't doing much better. Over the 12 months through June, Bull & Bear Gold Investors was off 17.3%, against the S&P's loss of 6.9%. The Overseas Fund, which Bull & Bear had the good fortune to launch ten days after the market crash, is up only 1.6% in the first half of 1988, against about 10% for the Morgan Stanley international index for the same period. B&B High-Yield Fund, a junk-bond fund established in 1983, delivered a total return of minus 5.9% over the 12 months through June, against a 6.4% gain for the average bond fund. The B&B U.S. Government Guaranteed fund did well: up 8.8% over the past 12 months.

But it is Bull & Bear's corporate performance that is most confound-

ing. In the past ten years the company has been profitable only four times, 1982 through 1985. In 1986 and 1987, monster years for mutual funds, Bull & Bear's assets under management roughly doubled; still the company lost money.

The losses are not for lack of revenues. Although it calls itself a no-load mutual fund company, Bull & Bear exacts hidden loads (12b-1 fees) from its fundholders. Add those to advisory

Brian Athar



fees and overhead expenses, and investing with Bull & Bear gets costly indeed. Its three stock funds are among the priciest: Capital Growth runs up \$2.20 a year in expenses for every \$100 invested each year, Bull & Bear Equity Income charges \$2.57, and Special Equities Fund comes in at \$3.01, including 12b-1 fees. The average for stock funds is \$1.49.

Bull & Bear bond fund investors pay \$1.50 to \$2.06 for each \$100 invested against an industry average of \$1.00. Perhaps most egregious: Bull & Bear money market fund owners pay \$1.00 per \$100 invested, versus an industry average expense of 64 cents.

Where does the money go? Advertising. Against revenues of \$5.7 million, marketing expenses at the company in 1986 checked in at around \$10 million, about eight times the level of the previous year. Last year ads and other distribution costs ran to almost \$5 million.

Notwithstanding the push, assets under management at Bull & Bear have fallen from a high of \$563 million in 1987 to \$439 million this year. The market crash is partly responsible for this drop, but so were negative returns in the High Yield Fund, according to Edward Webb Jr., the chairman of Bull & Bear's investment policy committee.

Chairman Bassett Winmill has reportedly moved to cut the ad budget, a projected \$2 million this year. The cutback seems to have come at the right time. This year the SEC's stricter rules for the aggressive sort of yield advertising that Bull & Bear used so extensively.

Question is, if advertising expenditures are cut, how will Bull & Bear attract investor funds? Its past record won't bring in buckets of cash. A new fund management team might help, but don't count on any new broom sweeping through here. Winmill owns all voting shares, discouraging any hostile tender. He has already turned down numerous buyout bids, including one for about \$20 a share before the crash. Now the stock languishes at around \$10, down from a 1986 high of 16.

And the management is a bit inbred. The seven-man investment policy committee includes Chairman Winmill, a cousin and neighbor who lives in Winmill's Upper East Side Manhattan apartment building. Five of the seven are listed in the Social Register as belonging to the same clubs. In the past year two of the chairman's sons have joined the firm, one as a marketing vice president, another as a lawyer.

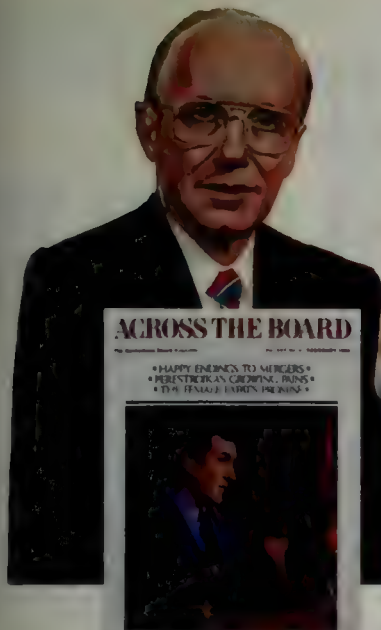
For now, Winmill family control of Bull & Bear seems assured. What isn't sure: Bull & Bear's ability to survive and prosper. No-load funds must have either advertising or performance to attract assets, and with strength in neither, Bull & Bear may be on a downward spiral of higher costs and lower performance. One cannot be too bullish about its future. ■

Allen F. Jacobson

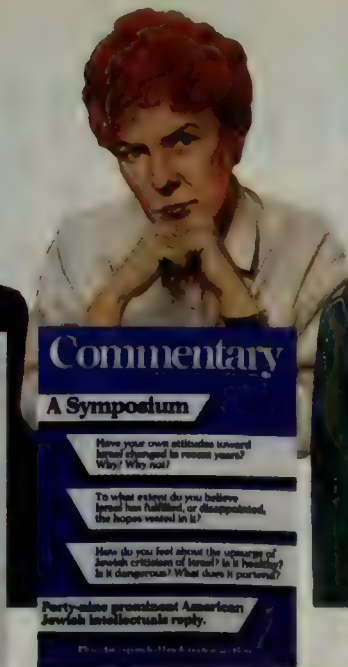
Jeane J. Kirkpatrick

Barbara Walters

Peter G. Peterson



32,000
10 issues per year



45,000
Monthly



31,000
Bi-Monthly



91,000
5 issues per year

Tom Selleck

John Kenneth Galbraith

Bill Bradley

Lester Thurow

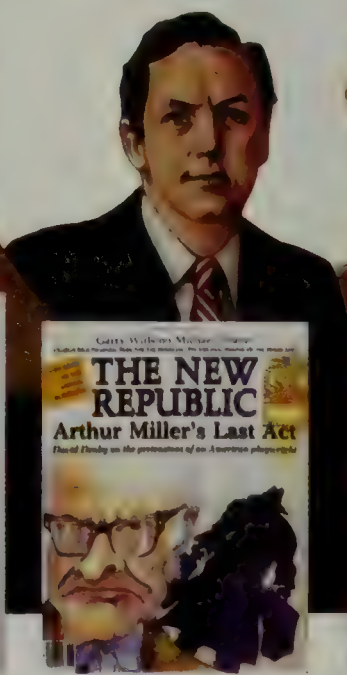
Alvin Toffler



115,000
Bi-Weekly



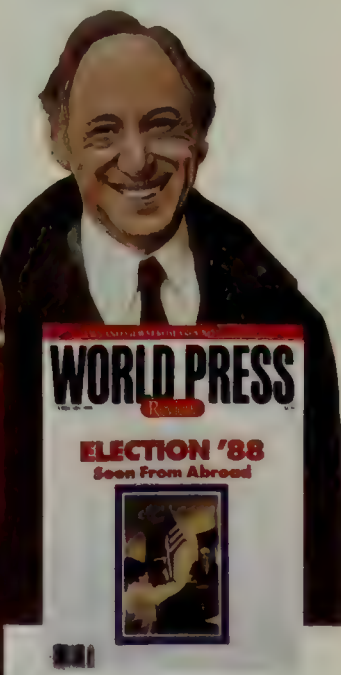
120,000
Bi-Weekly



92,500
Weekly



75,000
8 issues per year



60,000
Monthly

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High risk, high rewards.SM

Mortgage-backed securities are attractive for their yield. But know what you are buying and what the risks are.

DON'T BUY A PIG IN A POKE

By Ben Weberman



A pool of 10% Ginnie Mae mortgages was selling in early September at 98.24 to yield 10.37% over a weighted average life of 10.7 years. At the same time, 10-year Treasuries were trading to yield 9.28%. That would give the Ginnie Maes—which are close in quality to Treasuries—a yield premium of 1.09%.

These comparisons, valid now, may not correspond to eventual reality. A Ginnie Mae pool is backed by a package of home mortgages. Unlike a Treasury bond, due on the maturity date, a Ginnie Mae gets paid off over its life as homeowners amortize their mortgages. The mortgages may also be paid off prematurely if interest rates drop and homeowners refinance. So a Ginnie Mae is a bit of a crapshoot as to eventual yield, if not as to eventual payment of principal.

A Ginnie Mae coupon between 9.5% and 10.5% is current today—close to the rate on new mortgages. A current coupon mortgage would have a half-life of about 9.5 years, allowing for amortization and an estimated rate of early repayment.

Remember, though, rising interest rates slow prepayments, and falling rates encourage prepay-

ments. When rates rise, a pool of mortgages estimated to be half paid off in 9.5 years turns out to have a half-life of 12 years or longer. The investor is stuck with the low coupon for an extra 2½ years.

Complicated, but when considering Ginnie Maes for their good yield, you should know what you're getting and what you're not.

If mortgage rates fall, prepayments accelerate and the holding period for a 10% pool could shrink from 9.5 years to 7—or less.

The matter becomes even more complex when we move from Ginnie Maes to the somewhat similar mortgage-backed securities. To create an investment product that would eliminate some of this uncertainty, about five years ago some smart Wall Streeters created collateralized mortgage obligations.

In a CMO, the cash flow from a given pool of mortgages is directed to a number of different securities. One security, for example, may be paid off after only three years, say, others after five years or even longer. This is accomplished by earmarking all of the early amortization payments from the pool to the shorter-term securities.

But other securities backed by the same pool have been classified as residuals. Their cash flow is subordinated and they bear the brunt of maturity uncertainty; that is, the holder is more exposed to the risk of fluctuating interest rates.

If approached by a salesperson pushing a pool of residual mortgage-backed securities, be careful. Make sure you know the risks before you succumb to promises of high rates.

Look at one of these deals. ML Trust XXXI, a Merrill Lynch-spon-

sored pool of collateralized mortgage obligations, is backed by \$200 million of 9.5% passthrough 30-year Ginnie Mae mortgage certificates. Series B and C in this trust were structured for retail sale. The minimum is \$1,000. Fees and commissions run from 2⅛% to 2½%.

What does the investor get? The series B yields around 9.6%. This isn't much of a margin over the return on similar Treasuries. Series Bs have an initially estimated weighted average life of 27.4 years—appealing to those who want to lock in today's interest rates. But if prepayments are a little faster than the standard pattern, the weighted average life could drop to 11.5 years. Furthermore, a 1% to 1½% fall in mortgage rates could bring prepayments to 160% of the benchmark pace, dropping the average life to only 4.6 years. What seemed an attractive long-term investment backed by full faith and credit Ginnie Mae mortgages becomes a short-to intermediate-term holding.

I would also think twice before going into a new mutual fund, Huntington Short-Term Government Mortgage Fund. Huntington is for those "who seek to achieve a yield higher than that generally offered by money market funds, yet still enjoy the safety of government securities and greater stability of principal than generally offered by longer-term fixed-rate securities."

But unlike a money market fund that invests primarily in CDs and other short-term instruments, Huntington buys long-term, high-coupon, fixed-rate mortgage securities, stripped mortgage participation certificates, collateralized mortgage obligations, and adjustable-rate mortgage securities. All these can be subject to price fluctuations as interest rates move up and down—fluctuations money market funds are virtually immune to.

Why get tangled in complexities? Anyone with \$25,000 to invest can purchase Ginnie Mae pools directly. Yields are more than a percentage point higher than Treasuries of almost similar quality.

If you don't want to go for \$25,000 in one pop, consider a no-load Ginnie Mae mutual fund; management costs will slightly reduce your yield but you still get better than 9%—and somebody else will worry about the complexities for you. (For names of such funds, see the FORBES mutual fund survey, Sept. 5). ■

Ben Weberman is a contributing editor of FORBES magazine.

Portfolio Strategy

MONEY & INVESTMENTS

To say that some financials mislead is not to accuse accountants of being crooks.

IF IT'S TOO COMPLICATED, FORGET IT

By Kenneth L. Fisher



In a letter to *FORBES*, B. Philip Chenok, president of the American Institute of Certified Public Accountants, called my Aug. 8 column, a "cheap shot" at auditors. It was not meant to be. The column warned investors to be skeptical when they read annual reports and to pay close attention to footnotes.

Chenok was especially outraged by two statements: "The slimiest managements find the slimiest auditors"; and "Some managements would capitalize hot air if they could, and so would their auditors." As spokesman for the accounting group, Chenok claimed that a recent poll found that auditors have "the highest credibility and trust."

Yes, Mr. Chenok, most company managements and auditors are honest, but like all groups, at one end of the bell curve are folks who are honest to a fault, while at the other are the con merchants. No certification or association—CPA or otherwise—eliminates all con artistry.

The minority of con artists get away with things in auditing because it is specific but imperfect. Imperfect because there is no solidly real number on any financial

statement except for the item marked cash. The rest is calculated via assumptions, and the closer you get toward net income per share and shareholders' equity, the more the assumptions and errors compound.

To standardize methodology, accounting has decades of rulings from the Accounting Principles Board (APB) and more recently the Financial Accounting Standards Board (FASB). Auditors are supposed to examine reality and apply correct accounting based on the APBs and the FASBs. But this permits the bad guys to study the rules looking for loopholes and then plan transactions that, by their nature, require accounting that paints the financials in an unreal shade of reality.

So, with due respect to Mr. Chenok and his fellows, I still advise paying careful heed to the often overlooked footnotes.

Will reading the footnotes enable you to spot deliberate misrepresentation? Only rarely. But reading them will help you better understand the financials. It did recently for me. *Sequa Corp.* (63) surfaced on my firm's computer's value screen, and its annual report rippled onto my desk for review. Its footnotes detailed information that modified what anyone could see from the financial statements alone. For example, the financials showed rapid growth, with sales tripling in three years—while earnings from continuing operations rose from \$12 million in 1985 to \$28 million in 1986 to \$50 million in 1987. Wow!

Now to the footnotes. Footnote number 3 showed that the growth came mostly from the way in which acquisitions were accounted for. For instance, in December 1987 *Sequa*

bought *Atlantic Research* for \$325 million. It used the "equity method" of "purchase accounting"—as required by 1970's APB number 16—all quite correct, but also confusing. A legally required "pro forma" (in the footnote) shows that if *Sequa* had accounted for the deal as if *Atlantic Research* had been owned for both years, the combined operations—what is there now—would have shown an earnings decline, from \$64 million to \$36 million—almost the exact reverse of what its income statement shows.

Sequa got our computer's attention with a balance sheet that exceeded a formula based partially on "equity." But the financials show that \$365 million of its \$674 million of equity comes from "goodwill." The footnotes further show that \$200 million of the \$365 million of goodwill hangs on the *Atlantic Research* takeover. *Sequa* paid a fancy price (about 24 times earnings and 2.7 times book value). Maybe the goodwill is worth that much. Maybe it isn't. But my point is that you couldn't begin to figure it out without studying the footnotes.

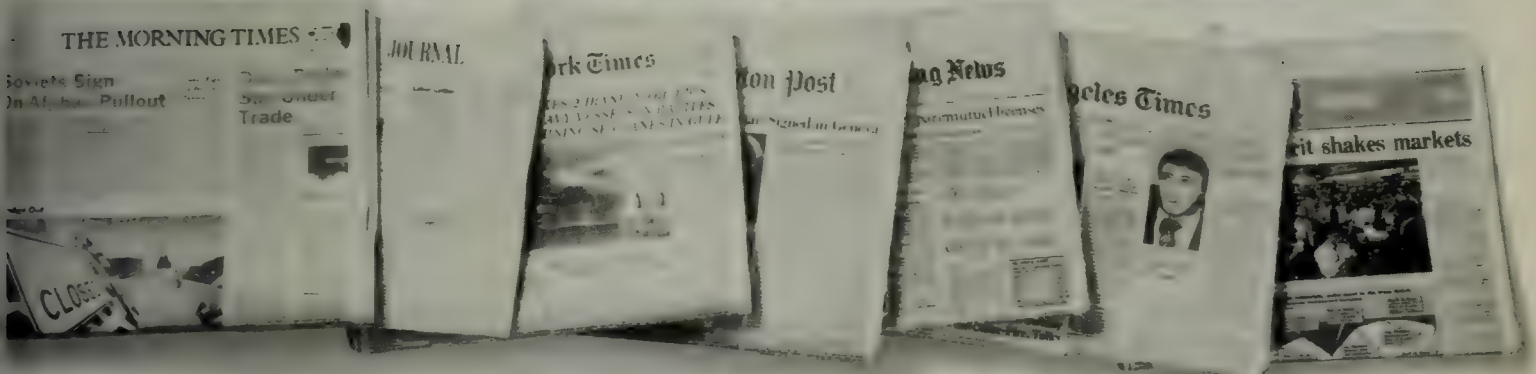
Read on in this same report. *Sequa* has 21 major footnotes, more than giants *IBM*, *Exxon* or *Sears*—including \$150 million of unconsolidated subsidiaries, a \$21 million nonrecurring pension plan gain, \$80 million of unbilled receivables—all proper but also all altering how you perceive *Sequa*.

Don't get me wrong. I'm not saying *Sequa* or its auditors engaged in fraud or misrepresentation. Quite the contrary, the annual report includes three pages of unrequired disclosures, and the "President's Message" clearly points you toward the notes. And the company was quite open in speaking with me. This is not a case of sleight of hand, but rather one of such complexity that I, for one, cannot grasp what the numbers really mean. Who could? My point in highlighting *Sequa* is to show the absolute importance of footnotes.

Precious few individuals will read all those notes, much less understand them. My advice is: Unless you think you're the next Ben Graham or John Templeton, think five times before buying any stock with lots of complicated footnotes. The more of them and the more complicated, the more trouble you will have distinguishing the phoney from the merely complex. ■

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: The Wall Street Waltz and Super Stocks.

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Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		



Man, Protagoras said, is the measure of all things. But are model portfolios the measure of all investment analysis?

GREAT INSIGHTS V. BAD ADVICE

By Mark Hulbert



The occasion for the above thought is the publication of a new book (*After a Crash: Bear Market Money Making*, Datum, \$14.95) by Harry D. Schultz, editor of *The International Harry Schultz Letter*. According to the record compiled by my *Hulbert Financial Digest*, Schultz' U.S. stock recommendations have underperformed the S&P 500's total return since 1980, by a margin of 34% to 238%. So it would be easy to question both the book and the letter—as I did recently in the case of Stan Weinstein, who also has just published a book, and whose *Professional Tape Reader* has performed similarly poorly.

Questioning Schultz is particularly easy, in fact, since he is a hyper-aggressive self-promoter, extreme even by the standards of the investment letter industry. On each masthead of his letter, for example, Schultz proclaims that it was "declared most profitable advisory letter" by the *Hulbert Financial Digest*. This, of course, is false, and it has been reported often to be false by various journalists who have asked me about it.

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest and author of The Second Hulbert Financial Digest Almanac, published by Minerva Books

Which perhaps explains the glee with which *USA Today's* lively columnist Dan Dorfman recently used the *HFD* data in a column urging that Schultz' book be scratched off your reading list. "It could be a time to rejoice," Dorfman concluded. "Schultz is now a raging bear. And that could signal a big market upswing."

Actually, Schultz' book seems to me to be quite sensible. And, unfortunately, I'm not so sure that the *HFD* data on his performance warrant such a sweeping dismissal of his current bearishness.

In a decade of rigorously monitoring investment newsletter performance, I have been confronted time and again by analysts whose overall analyses have been creditable but who, for a variety of reasons, have done a poor job of translating their insights into particular model portfolios. The fact is that the distinction between good analysis and bad advice can be surprisingly subtle.

The Schultz letter's overall commentary is voluminous and idiosyncratic, covering politics and Schultz' personal philosophy, besides markets. His recommendations are multitudinous. All this may genuinely interest particular individuals. And it enables Schultz, when asked about his *Hulbert Financial Digest* rating, to complain that I don't monitor all of his portfolios. (I did begin following his foreign stock portfolio, no easy task, in 1986; it is currently somewhat ahead of the dividend-reinvested S&P 500, 52% vs. 40.2%.)

And by virtue of publishing his letter for the past 24 years, Schultz may well have gained some insights not shared by traders who grew up

in a bull market era. He was bearish in 1982, for example, but when the bull market erupted in August he recognized he was wrong with admirable (and rare) humility. And he was relatively quick to see that gold had entered into a major bear market following its rise in 1980 to \$870 per ounce. This was all the more impressive since he and many fellow newsletter editors became famous in the 1970s by being bullish on gold; turning bearish, as Schultz said at the time, was like divorcing your wife. Some other "gold bugs" from the 1970s took far longer to see that their marriage had failed.

Why do Schultz' portfolios generally perform poorly? One reason is sheer bad housekeeping. Schultz doesn't offer consistent follow-up advice on all the stocks he initially recommends. The *HFD* immediately sells a stock when it is no longer mentioned, so the resulting commission costs put a drag on his performance. Conversely, he sometimes has left losers on his list for months before remembering to sell.

Before joining Dan Dorfman in rejoicing at Schultz' current bearishness, I would consider the coincidence that Schultz' pessimism matches that of another analyst whose overall market calls also have been better than his individual portfolio recommendations: Richard Russell of *Dow Theory Letters*. Russell, like Schultz, has been editing his newsletter for more than 20 years. His portfolio recommendations have underperformed the market by a margin similar to Schultz' (Currently, I find them too vague to follow.) Nevertheless, Russell also has some undeniably great market calls to his credit, not the least of which was turning bearish on stocks' major trend within a week of their top in August 1987 (see my Nov. 30, 1987 column).

Russell and Schultz could hardly be more bearish on stocks than they are right now. Schultz envisions an eventual bear-market low at the 750 level on the DJI. And Russell believes that currently we are in a primary bear market that could be "as important on the downside as the 1974-87 bull market was on the upside." That's scary.

Stock market bulls can cite Russell's and Schultz' poor ratings in my *HFD* as reason to dismiss their bearishness. But the real story is not quite that simple—or reassuring. ■

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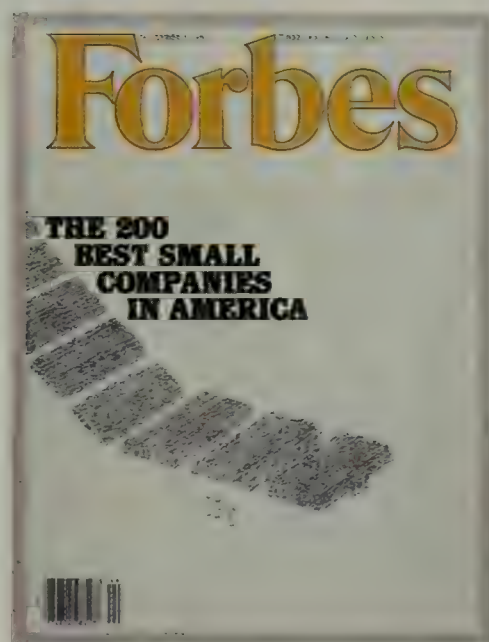
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Sell your home and rent, the argument goes. But the logic and evidence behind this advice don't quite hang together.

WILL HOME PRICES COLLAPSE?

By Alan Reynolds



Leading newspapers and magazines are suddenly full of frightening stories about how home prices are about to collapse—by as much as 50% in the area within 100 miles of Wall Street. The trigger for this new deflationary anxiety was a recent *Barron's* interview, based on a study by Stan Salvigsen and his associates at Comstock Partners. But the logic and evidence behind this real estate horror story don't hang together.

The Comstock analysts rightfully emphasize that their deflationary scenario "is extremely bullish for bonds." What they overlook, however, is that as bond yields drop, so will mortgage rates. Unless rents also decline—which they surely would not do if many homeowners followed the advice to switch to renting—then falling mortgage rates should be expected to raise home prices, as in 1982-86.

The Comstock analysts compare changes in the average price of a single-family home with average rents (mainly for multifamily homes), and conclude that it is cheaper to rent. But the size and quality of single-family homes has improved more than that of rental

housing. A somewhat better comparison is between the total costs of homeownership, which increased by 5.1% per year from 1984 to 1987, and the costs of renting, which increased by 5.5% per year over the same period. In any case, if many people suddenly took this advice—putting their homes on the market and instead bidding for scarce rental housing—then rents would clearly rise, making homeownership even more attractive.

The Comstock study also worries about excess debt, noting that mortgage interest has risen steadily as a percentage of GNP ever since 1945. A major reason for more and larger mortgages, however, is that more and more people could afford to buy increasingly luxurious new homes rather than rent apartments. Many rental units were also converted to condominiums, which likewise meant that mortgage payments simply replaced payments to a landlord. To show that housing debt is generally excessive we would instead have to look at ratios of debt to equity, just as we do with companies. Most mortgages, being fixed in value, have obviously declined relative to rising home equity for several years. Nonfarm housing was worth \$5.8 trillion in 1986, when outstanding mortgages were only \$2.5 trillion.

The authors are also unduly concerned about the rapid rise in home equity loans. A study in the June *Federal Reserve Bulletin* shows that such loans have been used mainly to pay down other debts that had much higher interest rates. Since home equity credit is cheap, flexible and tax-deductible, it is another reason to own rather than rent.

When northeastern realtors speak of "falling" home prices, they typically mean that sellers just aren't getting the big increases they asked for. The Comstock analysts believe that such flat prices of homes in the New York region reflect the area's alleged dependence on financial industries, which is rather loose compared with Houston's dependence on oil (though New Jersey's unemployment is still only 3.9%). Moreover, flat or declining prices in a few areas are said to be "mere warm-ups for the main event on a national basis." Comstock's Salvigsen expects middle-aged couples to sell northeastern homes and move to "North Carolina or someplace where prices are softer." If that happened, North Carolina home prices would rise, so relocation clearly could not cause a national decline. Besides, regions "where prices are softer" usually have lower income, which is why few of my New Jersey neighbors rushed to take advantage of home bargains in Houston.

The Comstock analysts point to figures showing median home prices declining in almost as many metropolitan areas as those in which they rose during the first quarter. But home prices are always weak in the winter. The same figures show home prices declining in only 9 out of 63 cities during the second quarter, and rising in 44, including greater New York and Boston—an inconvenient fact that the authors neglected to mention.

Suppose home prices really did begin to decline a bit in a few "cities that have done particularly well." The Comstock analysts claim U.S. homeowners would then suffer a wealth loss that would curb other spending. But there need not be any net wealth loss at all, because buyers gain what sellers lose. Some sellers might lose equity if they moved from a place where prices were falling to where prices were rising, but that contradicts the claim that prices will fall everywhere.

A zero capital gain on northeastern homes over the past year or so presents no great hardship for those of us whose houses have doubled in value over the past five years. A northeastern buyer's market is homes, while it lasts, is certainly not bad news for those who are considering buying their first home in the near future, and neither is the more convincing prediction of a drop in long-term interest rates. ■

Alan Reynolds, a guest columnist, is chief economist with Polyconomics Inc., a consulting firm in Morristown, N.J.

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★Average household income: \$162,000

★Total paid circulation: 735,000

★Average value of investment portfolio: \$899,000

Streetwalker

Edited by Thomas Jaffe

Is Xerox cheap?

By some measures Xerox looks a bargain. Recently at 54⅝, it sells just a shade above where it was after last October's crash. The price is roughly book value, the P/E is 8 to 9 times estimated 1988-89 earnings, price to cash flow is a low 4 times 1988-89 cash flow estimates. The yield is a handsome 5.5%.

Among the positives: More than 40% of revenues are from overseas, so the weak dollar has helped profits. New series of copiers are making Xerox more competitive. Information systems, though still unprofitable, are showing strength in both laser printers and electronic typewriters.

And the company is diversified: Through property and casualty insurer Crum & Forster and Xerox Credit's external leasing business, financial services now account for about half of earnings.

But there are negatives, argues analyst Eugene Glazer of Dean Witter Reynolds. The Japanese are stepping up their assault on the middle and upper ends of the copier market. Gross margins in the business are declining, the result of years of weak pricing and conversions from a highly profitable rental operation to outright sales. As for Crum & Forster, Glazer says the end of the property and casualty cycle is nearing; he looks for a downturn next year.

What about all that cash flow? Glazer's estimate is \$13.45 and \$14.35 a share in 1988 and 1989, respectively. But after dividends and capital spending, free cash per share amounts to only about 75 cents this year, and \$1.25 in 1989.

With the questions balancing the positives, Glazer thinks the market is pricing this company efficiently.

Investment investment

Precision Castparts Corp. of Portland, Ore. is the world leader in large "investment casting," a technique that produces parts with the most perfect surfaces available. Parts manufactured by investment casting are used to make complex aerospace components and other high-tech industrial products. The competitive business uses a sand mixture

rather than ceramic material and wax to form its molds; this results in products with rougher surfaces.

For the fiscal year ended Mar. 31, 1988, Precision earned \$36.8 million, or \$2.27 per share—a 68% increase over 1987—on sales of \$414 million. For the quarter ended June 30, backlogs were up 46% year-to-year, to \$416 million. Analyst John Simon of Los Angeles' Seidler Amdec Securi-



Ceramic mold by Precision Castparts
Smooth surfaces, hot profits.

ties predicts Precision will have little problem posting 15% annual sales gains both this year and next.

For the current fiscal year, Simon is looking for a modest earnings gain, to \$2.40 a share. This, because of increased raw material costs, particularly in nickel, and the startup expenses on a large number of new products. But, for the fiscal year beginning Apr. 1, 1989, Simon expects pretax margins to rise as Precision spreads those costs over a bigger sales base. He thinks earnings will hit \$3 a share next year.

With the stock recently selling o-t-c at 33½, Precision Castparts' 16.7 million shares (Chairman Edward Cooley owns about 19%) are valued at just 11 times next year's anticipated earnings. Pretty reasonable for a growing technology company.

Asbestos play

Few companies better qualify as a beneficiary of the industrial revival than Cincinnati's diversified Eagle-Picher Industries, Inc. (estimated 1988 sales, \$695 million). Eagle-

Picher produces everything from specialty chemicals and automotive parts to diatomaceous earth, through which expensive liquids are filtered, and super-sophisticated batteries for aerospace applications. According to Edward Cimilluca, of Shearson Lehman Hutton, earnings should be \$4.12, to \$4.15 a share, for the fiscal year ending Nov. 30, and to \$5 a share next year. As for 1988 cash flow, Cimilluca's predicting a healthy \$6.75 a share. (There are 10.7 million NY shares outstanding.)

So how come the stock recently sold for only 29¾? In a word, asbestos.

Although Eagle-Picher last manufactured asbestos-containing insulation 17 years ago, the company has been paying for it ever since as a co-defendant in thousands of lawsuits. At the end of fiscal 1985 Eagle-Picher provided \$400 million against future liabilities from asbestos litigation—\$215 million in insurance and a reserve of \$185 million. The hit cut net worth by more than half. Cimilluca says investors fear Eagle-Picher will take another big reserve.

Cimilluca expects this to happen before the close of the current fiscal year. But he doubts that such a move will kyo the balance sheet this time since he expects the company to sell assets to finance the reserve. With the uncertainty out of the way, Cimilluca thinks the stock may get moving again. Indeed, between late 1986 when E-P took that last reserve, and early 1987, the stock more than doubled, to an alltime high of 53—though the bull market also helped. Interesting possibilities here.

Ruddick's ruddy prospects

Analyst Kay Norwood, of Charlotte's Interstate Securities, brings to our attention Ruddick Corp., a little-known miniconglomerate also headquartered in Charlotte, N.C. With estimated 1988 sales of \$1.1 billion, Ruddick operates American & Efrid Mills, a thread and yarn producer; Jordan Graphics, a business forms manufacturer; a small venture capital subsidiary; and Harris-Teeter supermarkets, a 120-outlet grocery chain in the Southeast.

Ruddick has compiled an impressive record, with earnings up every year save one since 1975. But these days Norwood is particularly bullish because of Harris-Teeter's prospects. Known as an "upscale" discounter, its stores have bakeries and deli counters and carry specialty items. In April Ruddick acquired the assets of 50 Bi-

grocery stores from Grand Union, now is gradually turning many of them into Harris-Teeters. As Harris-Teeter grows, says Norwood, so will its contribution to overall earnings. Last year it accounted for 47%; next year she thinks this will increase to 60%. For the fiscal year ending Sept. 30, Norwood expects earnings to rise 6%, to \$1.87 a share. In fiscal 1989 she is looking for \$2.20, an 18% gain. There are 9.7 million Amex-listed shares. An employee stock plan owns 6%; brothers R. Stuart and Alan T. Jackson, chairman and president, respectively, own 13% more. Recent price: 20 3/4. Norwood thinks the stock will go to 27 over the next 12 months.

It's so sick

Several groups have taken a worse beating in the market than health maintenance organizations, nursing home operators and specialty companies in the medical services industry. For contrarians, analyst Peter Sidi of Drexel Burnham Lambert suggests Greenery Rehabilitation Group. Based in Cambridge, Mass., Greenery (estimated 1988 sales of \$84 million) runs facilities specializing in treatment of traumatic head injury and other neurological impairments. Recently priced o-t-c at 7 3/4, the stock has fallen some 40% since the beginning of the year. Among the reasons, according to Sidi: disappointing quarterly earnings comparisons, tied partly to expansion; and a thin public market, with 70% of the 9 million outstanding shares belonging to insiders. On the plus side, says Sidi, the company's patient mix is attractive. Cases covered under negotiated rates and indemnity insurance account for more than 70% of revenues; less than 6% can be traced to mandated government reimbursement rates. Greenery also is cash-rich, with \$48 million (or \$5 a share) in the till, and its investment in publicly traded Health Rehabilitation Properties is worth another \$9 million. As most of Greenery's \$32 million of long-term debt is convertible debentures currently trading for around 65 cents on the dollar, Sidi notes the company could opt to retire its outstanding debt and still end up with about \$3.65 a share of net cash and equivalent. Sidi estimates Greenery's earnings will be flat at 55 cents a share for the fiscal year ending Sept. 30, but he sees an 18% gain, to 65 cents, in 1989. Over the next 6 to 12 months, target stock price is \$10 to \$12.

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Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors. "This is the way you always imagined the South Pacific to be — an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather

an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special — particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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The image shows the cover of the Chinese edition of BusinessWeek magazine. The top left corner has a small logo for 'McGraw-Hill'. The top center reads 'BusinessWeek China'. The main title is '國際商業與管理' (International Business and Management) in large Chinese characters, with the English translation 'INTERNATIONAL BUSINESS AND MANAGEMENT' below it. A prominent headline in the center asks '放松管制 行之有效吗?' (Relaxing controls, is it effective?). Below the text is a black and white photograph of an airplane on a runway, viewed from a low angle. The bottom right corner features the McGraw-Hill logo and the copyright notice '© 1988 McGraw-Hill, Inc.'

For further information contact: Hal Berry 212/512-3867

Flashbacks

Edited by Dero A. Saunders

"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

from the issue of October 1, 1928)



Imposing entrance of the First National Bank of Boston's Buenos Aires office

"25 years a new world will be created to the south. Great hydroelectric plants will be erected; a vast system of land waterways will be in operation; communication by air, railroad and highway will be a reality; large factories turning out automobiles, textiles, metal goods, chemicals, oils, minerals, will employ their thousands with purchasing power made possible by the payrolls."

"Overall, 85,000 baseball fans passed through the turnstiles of Yankee Stadium last month to see a doubleheader with the challenging Athletics. It was the largest crowd that ever saw a baseball game. All of 100,000 were turned away. The receipts, \$15,000, set a record for a regular season game."

Fifty years ago

from the issue of October 1, 1938)

"In any contest to determine the hardest worker in America, Mayor Fiorello La Guardia of New York would have to receive consideration. He sleeps less than Edison claimed he did, never relaxes from early morn till late night, devours work at top speed, and never wants to travel under 60

mph. Even those who differ with him politically recognize these qualities—and his incorruptible honesty."

—B.C. Forbes

"Motor-truck trains with ten trailers are in use on Italy's new express roads. A concrete ridge in the middle of the road is straddled by the trucks, which have rollers that fit against the sides of the ridge."

Twenty-five years ago

(From the issue of October 1, 1963)

"For many weeks following the stock market panic in May of last year, most of my own friends and most of the published pundits referred to the price toboggan as the 'Kennedy market.' As the President, with wry humor, mentioned at a recent press conference, no one has attached his name to the present record-breaking highs in Wall Street." —Malcolm Forbes

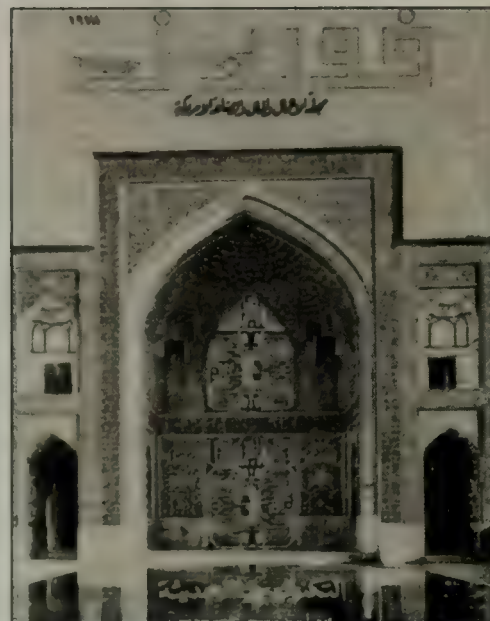
"The old problem [of centralization versus decentralization] is becoming somewhat obsolete. It is the computer that is making it so. These wonderful machines can gather so much information and transmit it so fast that a company which uses computers can give its men in the field the maximum amount of discretion and yet keep close tabs on them."

Ten years ago

(From the issue of October 2, 1978)

"Yesterday was a good day. We had only 13 major stoppages.' That is the wry comment of Michael Edwardes, chairman of Britain's major automak-

er, British Leyland (now BL), on his company's labor problems. During the first six months of this year, Edwardes says, Leyland factories were 'disrupted' by labor disputes no fewer than 346 times."



Cover of the 1978 issue of FORBES annual Arabic language edition

"One of the more fascinating pioneering endeavors in the history of this magazine (as well as in that of U.S. business journalism) has been the FORBES 'Report On American Industry,' published entirely in Arabic. This month our fourth annual edition is being distributed to a carefully compiled list of more than 20,000 of the most important business, financial, governmental and educational decision-makers in the Arab World. . . . This year's issue, at 192 pages, is our biggest Arabic issue yet."



British Leyland workers in one of their almost daily late-1970s work stoppages

Ambition often puts men upon
doing the meanest offices;
so climbing is performed
in the same posture
with creeping.
JONATHAN SWIFT

In our society, to admit inferiority
is to be a fool, and to admit
superiority is to be an outcast.
Those who are in reality superior
in intelligence can be accepted
by their fellows only if they
pretend they are not.
MARYA MANNES

A system is nothing more than
the subordination of all aspects
of the universe to any
one such aspect.
JORGE LUIS BORGES

All victories breed hate, and
that over your superior is
foolish or fatal.
BALTASAR GRACIÁN

What the superior man seeks
is in himself. What the mean
man seeks is in others.
CONFUCIUS

Size is not grandeur, and
territory does not make
a nation.
THOMAS HUXLEY

The defeats and victories
of the fellows at the top
aren't always defeats and
victories for the fellows
at the bottom.
BERTOLT BRECHT

Subordination tends greatly
to human happiness.
SAMUEL JOHNSON

The greatest evil which fortune
can inflict on men is to endow
them with small talents
and great ambition.
VAUVENARGUES

Thoughts on the Business of Life

*The inferior men must, in time,
give way to the superior. The
universal trend today is toward
large units. The finger of destiny
would seem to point to the ultimate
domination of minor, backward
nations by the larger, stronger
ones, just as in the economic
world the current runs strongly
toward the obliteration of puny
units by more powerful ones.*
B.C. FORBES

Make men large and strong,
and tyranny will bankrupt
itself in making shackles
for them.
HENRY WARD BEECHER

To succeed in chaining the
multitude you must seem
to wear the same fetters.
VOLTAIRE

No morality can be founded on
authority, even if the
authority were divine.
A.J. AYER

So long as men worship the
Caesars and Napoleons,
Caesars and Napoleons will
duly rise and make
them miserable.
ALDOUS HUXLEY

To be is to be cornered.
E.M. CIORAN

*More than 3,000 "Thoughts," indexed by
author and subject, are available in one vol-
ume bound in blue cloth and stamped in
gold. Send \$18.50 with your order to: Forbes
Subscriber Service, 60 Fifth Avenue, New
York, N.Y. 10011. Please add sales tax on
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where applicable.*

Success is not greedy, as
people think, but insignificant.
That's why it satisfies
nobody.
SENECA

I distrust all systematizers,
and avoid them. The will to
a system shows a lack
of honesty.
FRIEDRICH NIETZSCHE

Necessity can make a
doubtful action innocent,
but it cannot make it
commendable.
JOSEPH JOUBERT

A minority may be right,
and the majority is
always wrong.
HENRIK IBSEN

Triumph cannot help
being cruel.
JOSÉ ORTEGA Y GASSET

A Text . . .

Surely men of low degree
are vanity, and men of high
degree are a lie: to be laid
in the balance, they are
altogether lighter
than vanity.
PSALMS 62:9

*Sent in by Jackson Stubbs, Melrose, Mass.
What's your favorite text? The Forbes
Scrapbook of Thoughts on the Business of
Life is presented to senders of
texts used.*

One completely overcomes
only what one assimilates.
ANDRÉ GIDE

It is the contest that delights
us, not the victory.
BLAISE PASCAL

OCTOBER 17, 1988
THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

**PAY TV
IS THE
BEST PART
OVER?**



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Some people seem to wonder how a luxury car can be a luxury car and still be exciting to drive. At Porsche, we've always wondered how a luxury car can be a luxury car and *not* be exciting to drive.

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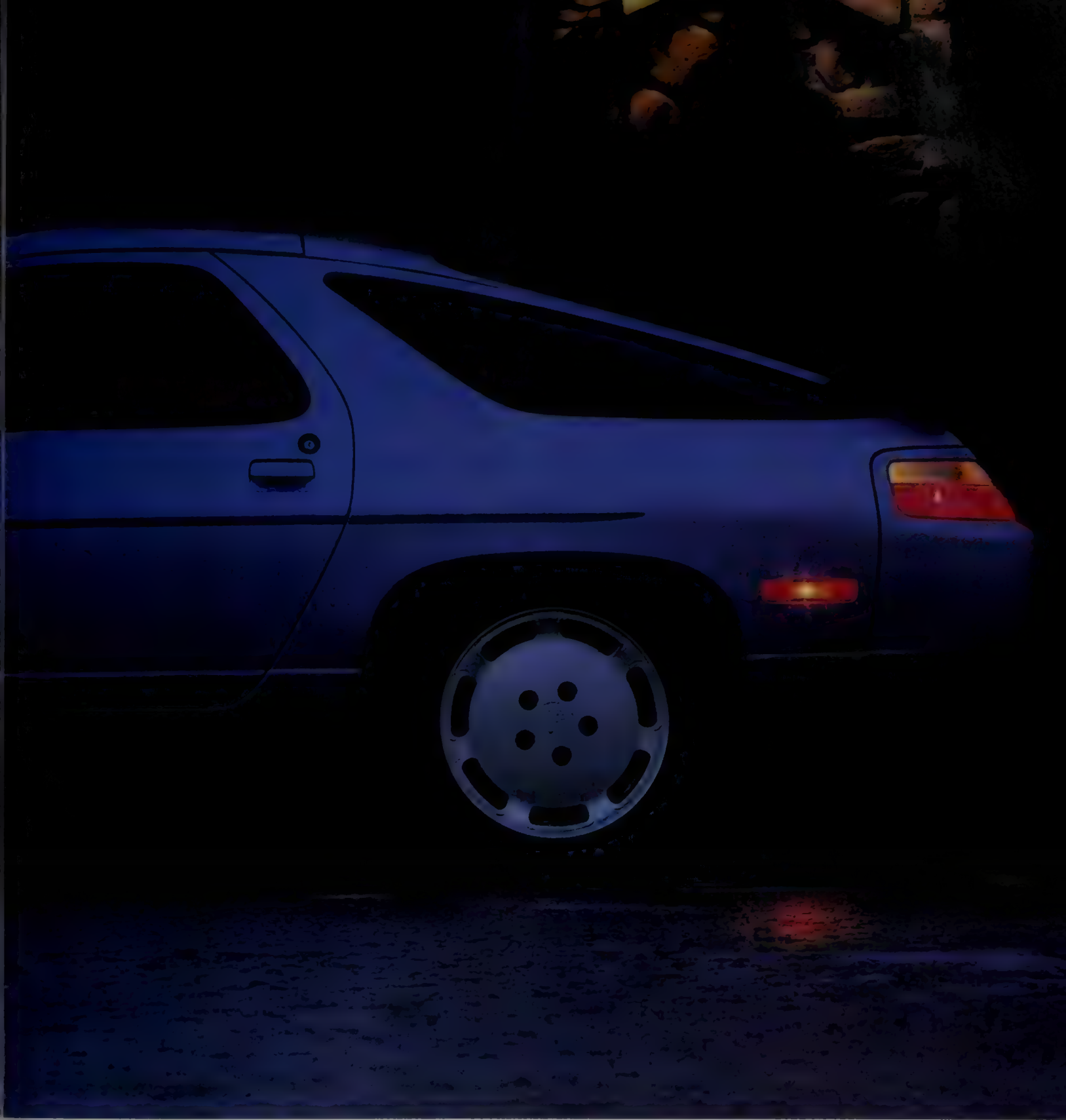
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Porsche North America, Inc. Performance figures are for comparison only. Porsche does not recommend exceeding any speed limits.



auffeur.

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from 60 mph in a remarkable 154 feet.

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Cover illustration by Carter Goodrich



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OCTOBER 17, 1988
VOLUME 142
NUMBER 8

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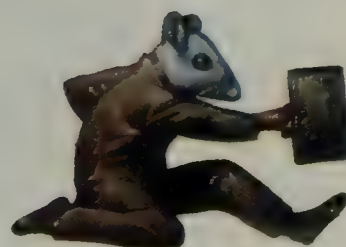
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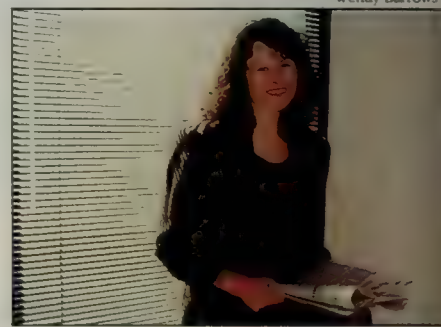
Columbus: John P. Thompson, Manager

What's on?

The image on this issue's cover is, we confess, maybe just a bit of an overstatement. Television programming is not a completely reliable substitute for Seconal, or even for warm milk. But tv as a mass medium is more than 40 years old now, and even one of the newest

segments of the business, the pay tv services, is showing clear signs of middle age. **FORBES'** Deirdre Fanning reports that although nearly half of all U.S. households are yet to be wired for cable, growth prospects for the major pay services carried on cable systems—outfits such as HBO and Cine-

max, Showtime and the Movie Channel—are suddenly dimmed because of rapidly changing technology and a burgeoning of alternative entertainment and news services offered on basic cable at no extra charge. The demise of the pay services is no imminent, Fanning concludes, but their prospect is not a cheerful one—spending more and more to get less and less. Hence the title—"The best part of the show is over"—of the story that begins on page 101.



FORBES' Deirdre Fanning

America's newest contrarians

In New York the phrase "Korean grocer" verges on the redundant. Some 85% of the retail greengroceries in the Big Apple are now owned by Korean immigrants, reports **FORBES'** Matthew Schiffrin in this issue. For many of them, it's a long, tough business day—up in the wee hours at the produce markets, then minding the store into the evening—seven days a week.

If that were all, it might perhaps be nothing more than the latest chapter in an old but ongoing story. New York is the place where millions have come to change their lives, or at least the lives of their children. Running a greengrocery, with essential help from the wife and kids, is no more or less plausible a place to do that than, say, a candy store.

But that is not all. As it is in greengroceries, so it is—or soon may be—in dry cleaning stores, nail salons, fish markets and other enterprises in cities all over America. With energy, intelligence and perseverance, Koreans have emerged as an entrepreneurial powerhouse in the U.S. economy.

And many Koreans have given an added spin to their labors. You find them now in some of the most troubled sections of major cities—in the South Bronx, the Olney section of Philadelphia, South Side Chicago, East Los Angeles. Many of them are there, Schiffrin notes, by choice. They pick out-of-favor locations, he says, because rents are cheap and growth potential is high. In short—contrarians.

Schiffrin spent one month reporting the story. After interviewing dozens of Koreans who work long hours and save almost everything they earn, he says he felt somewhat lazy and wasteful in comparison. His report begins on page 92.

Sheldon Zalaznick

Managing Editor

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Follow-Through

M&A at Brown Brothers

July 11, 1988



Tim Farrow

Brown Brothers Harriman & Co. has been more forthcoming since *FORBES* profiled the secretive banking house this summer. Brown's biggest fumble had been in mergers and acquisitions, where it worked with turtle-like slowness and arranged relatively few deals, we wrote. In a subsequent confidential letter to clients, the firm revealed details about its mergers and acquisitions business which it had refused to disclose to us.

The firm says its M&A team has assisted in 74 transactions since 1979, worth \$11 billion. Over half these transactions involved foreign firms, and the profits accruing to Brown Brothers over the nine-year period surpassed \$45 million. Most of that M&A work did not show up on the databases we looked at. Even with the private transactions, the firm's M&A team appears to rank only about 30th among U.S. investment banks, as measured by total dollar volume of deals done.—Edwin A. Finn Jr. and Jack Willoughby

A lively anachronism

Sept. 16, 1985



Tom Lewis

The antecedent of the mutual fund, face-amount certificate companies, initially sold their savings certificates to small savers who did not trust banks. Investors would send in money and after a fixed period get their principal plus an interest premium on the matured certificate. In 1985 such certificates were still being sold by holdouts like Minneapolis-based IDS. Despite their homely virtues, though, we thought the certificates were on the verge of extinction.

Writing today face-amount certificates which invest deposits mostly in corporate and municipal bonds and

currently pay a 7.95% interest rate, are experiencing a revival. At IDS, sales this year rose 183% through August, to \$585 million, and new money is flowing in at the rate of nearly \$20 million per week. That has helped push certificates outstanding up 42% since 1985, to more than \$2 billion.

Why the renewed interest? The main reason is investor fear—surprisingly, not so much of bank failures as of falling stock and bond prices. IDS has also given a boost to one type of certificate, the installment certificate, by promising to kick in 10% of each monthly payment as an interest bonus after two years.—Ruth Simon



John M. Clark Jr.

The Clabir shuffle

July 15, 1985

Henry Clarke

Henry D. Clarke Jr. was so famous for buying companies and shuffling their assets and liabilities that no Wall Street analysts bothered to follow Clabir Corp., his Greenwich, Conn.-based defense and ice cream conglomerate. Shareholders had gotten a decent 1,439% return from 1976 to 1985, but *FORBES* noted that Clarke had in any case made out well. In 1984 alone he took \$2.8 million in salary, bonuses and dividends.

Now Clarke's perennial corporate shuffling has all but destroyed Clabir and its subsidiaries, General Defense and AmBrit. The stock now trades at 1¼, down from a peak of 14¼ in 1983. Although Clabir's bookkeeping has grown ever more baffling, the firm and its subsidiaries appear to have hundreds of millions of dollars of liabilities—including \$223 million of loans and debentures on which General is in default—and a tangible net worth on common shares of negative \$172 million.

Clabir's future is plainly in doubt. Olin Corp. has agreed to buy General for \$86 million, but only if Clabir clears up most of its \$301 million in liabilities. Unless Clabir's banks and bondholders agree to renegotiate General's debts, Clarke plans to put it into Chapter 11. But Clarke is doing fine. Last year he earned \$853,000 in salary and bonuses.—Alyssa A. Lappen

Faxing profits to Japan

July 14, 1986

John Sheehan



Joey Rand

The future of facsimile technology was bright in the U.S., *FORBES* wrote two years ago, but it would be Japanese and not American manufacturers that would reap the rewards as demand for the machines surged.

The fax market has in fact grown faster than we had anticipated. Dataquest, the high-tech market analyst, says the U.S. market alone reached \$914 million last year, up 84% from 1985. This year, Dataquest predicts the U.S. market should easily reach more than \$1.2 billion and the world market more than \$3 billion.

Virtually all fax machines sold in this exploding market continue to be Japanese made or licensed. Thus, Japanese exports of these devices nearly doubled, to \$2.1 billion, in the year ended last March, according to Phoenix-based *Japan High Tech Review*. American companies, it seems, either can't or won't compete.—A.A.L.

Nuts!

Mar. 10, 1986

Roger Baccigaluppi



Thomas Lee

Blue Diamond Growers, the 5,100 member California almond growers' cooperative, needed to put some profits back in the almond business, and two years ago began a marketing drive to get food companies like Kellogg and Ralston Purina to increase the number of consumer products containing the nuts. *FORBES* figured the effort would pay off, and we were right. Since 1985 cereals with almonds have grown from four to more than two dozen, and the co-op's profits have exploded. Last year California almond growers reaped gross profits of 22% to 37% of sales on a record crop of 660 million pounds of nuts, compared with almost nothing just two years ago. Now, thanks largely to a weak dollar, the co-op sells two-thirds of its crop overseas, up from 57% in 1986.—A.A.L.

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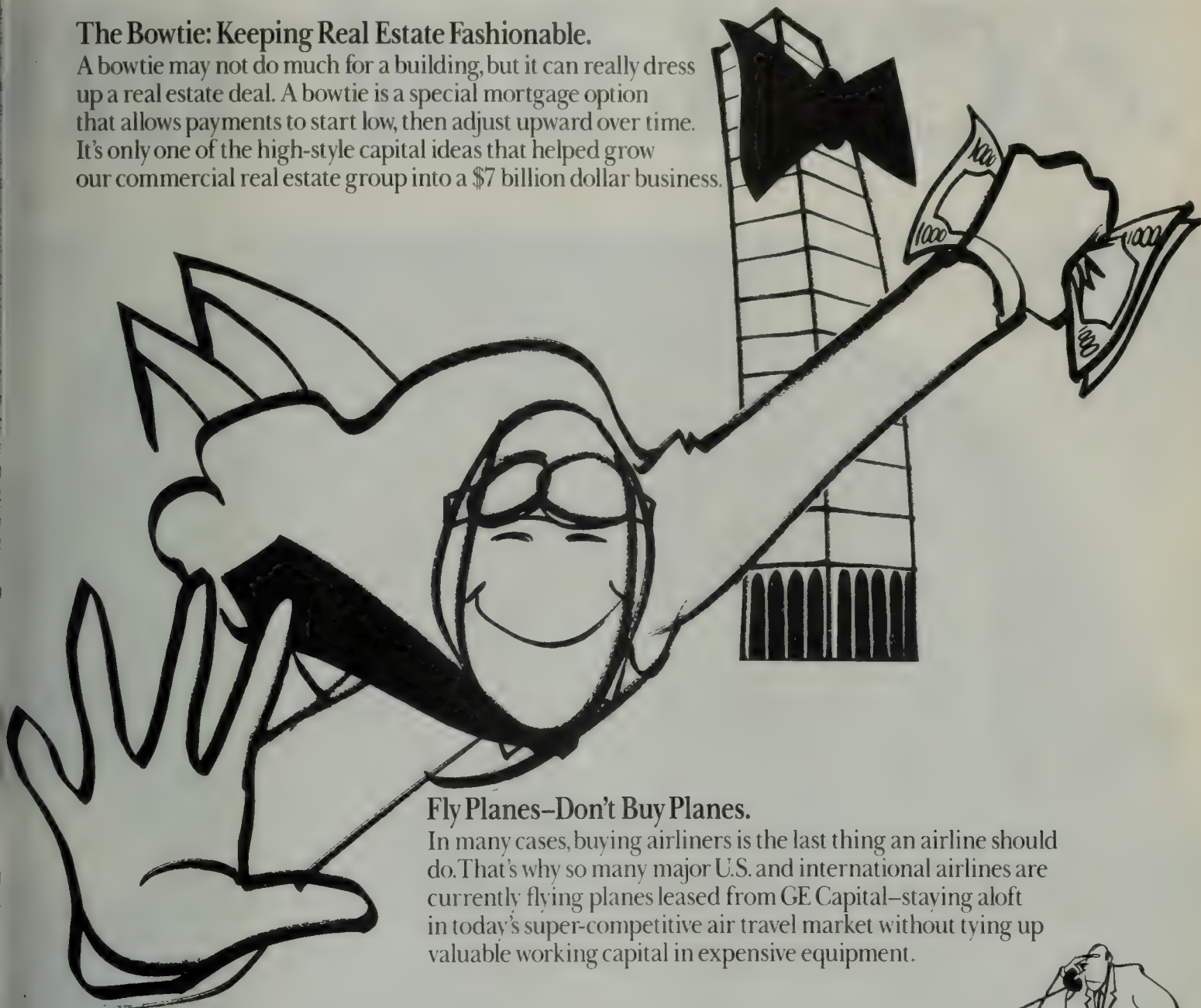
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Now there's a plan to fit nearly every size player.

The new AT&T WATS lineup includes the PROSM WATS plans designed specifically for small to medium-size businesses. PRO WATS provides discounts from 10% to 38% and you can qualify for the plans with at least \$120 per month in long distance calls.

PRO WATS works off your existing lines, so there's no need for special equipment and all your lines count toward discounts. PRO WATS also gives you detailed billing, distance-sensitive rates and discounts on out-of-state AT&T Card calls and direct-dialed international calls to 40 of the most frequently called countries.**

And AT&T PRO WATS State is designed for customers whose AT&T long distance calls are primarily in-state.

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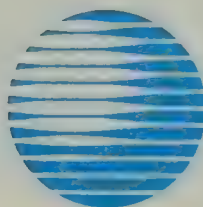
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AT&T

The right choice.

Edited by Gretchen Morgenson

Drexel's best investment

Despite all its troubles with the SEC, Drexel Burnham Lambert has some well-wishers in Washington. Those pals have sponsored a bill, pending in Congress, to overhaul the civil racketeering statute. One effect would be to wipe out the onerous penalties Drexel would have to pay if found guilty of civil securities law violations.

The legislation, likely to be passed shortly, effectively removes the triple-damages penalties automatically slapped on all civil racketeering cases. The bill would be retroactive and remove the penalty even on cases launched against Drexel last year.

Introduced by Senator Howard Metzenbaum (D-Ohio) and Representative Frederick Boucher (D-Va.), the bill sailed through the Senate Judiciary Committee in the spring. And now, with Congress in a rush to adjourn, its sponsors will probably attach it to any old piece of legislation and quietly get it through in early October.

Even with the bill, Drexel's not exactly out of the woods. If the firm loses just one securities law case, it could still face fines in the hundreds of millions. But tripling those millions, under RICO, could seriously damage the firm's capital base.

The force behind this Wall Street relief bill? The high-powered D.C. law firm of Akin, Gump, whose partner roster includes former Democratic National Committee boss Robert Strauss. Drexel underwrote the firm's effort with a healthy \$250,000 outlay, and other securities firms kicked in as well. Add to that the \$275,000 Drexel spread around Congress in the last two elections through PAC money, and the firm spent a little over half a mil. Compared with the hundreds of millions in fines that the firm could be saving, you've got a pretty good return on investment... even by Drexel's standards.—Eric Schmuckler

Lights out in Cincinnati?

This may be Cincinnati's bicentennial year, but so far 1988 hasn't been all that rosy for town boosters. By year's end Cincinnati may have lost a greater number of its Forbes 500s companies than any other midsize city in the U.S. Not that Cincinnati (pop. 500,000) is a bad place to do business. It's just had the bad luck to become a M&A ghost town.

Gone, for instance, is Federated's 520-job headquarters. The retailing giant is now owned by Campeau, which cut staff so far by almost 200. Going may be the 930 jobs at U.S. Shoe; in September the troubled company put itself up for sale. And Kroger, a supermarket chain employing 1,000 people in town, is battling takeover threats from the Hafts of Maryland and mighty Kohlberg Kravis Roberts.

Of course Cincinnati is still the headquarters town of P&G, United

Cincinnati, Ohio

A year to forget.



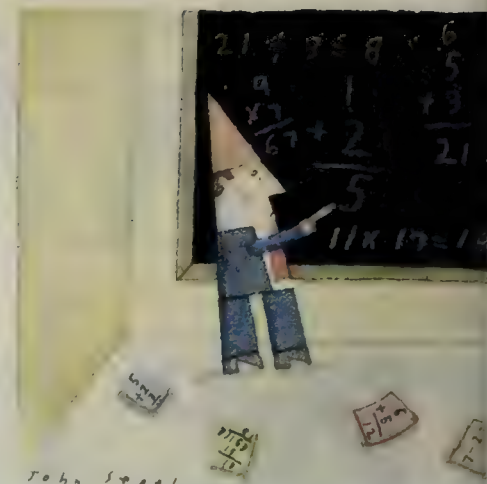
Brands, Penn Central and a host of smaller concerns. But seeing a quarter of its biggies fall to the restructuring wars is enough to make you wonder: Is there something in the water?

Bad math, bad advice

In a world where financial planners are as trusted as used-car salesmen, the College for Financial Planning in Denver at least stands for the idea of turning out educated professionals. Indeed, the College has awarded almost 20,000 CFP certificates in its 16 years. Currently, 22,500 folks are studying by mail to pass their exams.

But are those CFP grads in fact well educated? Perhaps not. Seems some of the exam preparation material the College gives to its students employs the wrong math.

Two fairly obvious errors were discovered by Jim Schwartz, a fee-only planner in Englewood, Colo. and John Allen, a lawyer who created the first financial planning spreadsheets for Connecticut General. Schwartz had been asked to evaluate some of the College's test materials for accuracy

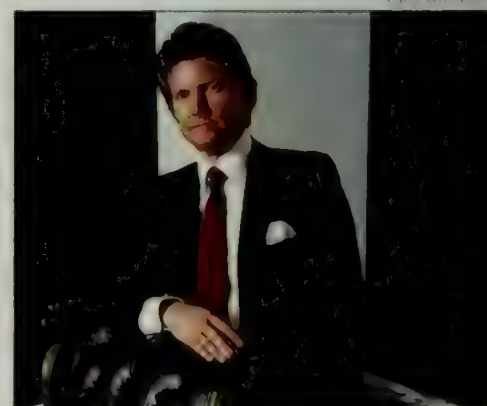


and clarity. What he and Allen found: Where students were learning to estimate how much money Mr. Client needs to retire comfortably, the methodology assumes that the higher the investment's promised annual return—say 10% instead of 8%—the more money will be needed now to meet the retirement goal. A weird confusion of ends and means. In another case, students were told essentially to net out future rates of inflation from the return rather than allowing for them in the equation.

When asked about the errors, College staffers say they stand by their methodology. Are there other errors lurking in CFP course materials? We'll never know. When Schwartz pointed out his findings, he was stonewalled. Allen predicts that the College's error will go uncorrected. Why? Because using these bad formulas helps planners sell more product, he says. And financial planners wonder why they can't get no respect?

Beleaguered Burt

Burt Sugarman, chairman of Los Angeles' Barris Industries and cement company Giant Group has had his share of disappointments recently. Earlier this year he tried to take over conglomerate Media General and failed. Later he tried to buy MGM/UA from Kirk Kerkorian and failed again.



Burt Sugarman, of Barris and Giant
No end of woe.

What more could go wrong? Plenty.

For starters, Sugarman's stuck with losses on his \$120 million Media General stake and he can't get out without trashing the stock. His cost basis is around \$40 a share; the stock recently traded at 35. Another problem? Sugarman's high-priced movie producers, Peter Guber and Jon Peters, are in a snit. Without a studio—why Burt wanted MGM/UA so badly—Guber and Peters have to rent, making it difficult to produce movies. Burt paid \$28 million for the team.

There's more. In June a deal Sugarman had struck to sell Giant's cement operations fell apart, denying Sugarman a badly-needed \$110 million in cash. Sources say the buyer found Giant's plants outmoded.

Finally, there could be a shareholder suit in Sugarman's future. Both Barris and Giant Group stocks have barely budged from post-Crash lows, because, some shareholders say, Sugarman's not minding the stores. One large shareholder is close to launching a class-action suit alleging Sugarman's manipulation of Giant Group stock and possibly his breach of fiduciary duty. Sugarman did not return phone calls.

Market fax

While other investment newsletter writers are scratching around for post-Crash subscribers, Glenn Cutler, publisher of Market Mania, finds himself in the midst of a subscription flood. Why? Well, his track record doesn't hurt: So far this year his two stock portfolios are up 30% and 21%, according to the *Hulbert Financial Digest*.

But Cutler's also brought his business back to life by being one of the first to offer clients his picks by fax. In the first month of faxing his *Daily Market Comment*, he's attracted 25 clients at \$150 a month. Some are money managers, a few are individuals, but most are brokerage firms.

Crash accounting

Look for Delta Air Lines to book an extraordinary gain of 11 cents a share this quarter. Why? Accounting rules force the airline to record a profit on the crash of its 727 in Dallas in August. Airlines insure their craft for market value, but carry them on the books for much less because of depreciation. (Airlines are insured against claims by survivors' and victims' families; those are the insurer's problem.) In this case, the plane was on Delta's books for \$962,000 and insured for \$6.5 million. So Delta, which earned \$6.30 a share last year, will book a gain of over \$5.5 million.—E.S.



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Readers Say

Good medicine

SIR: Your article on prostate cancer (Sept. 5) left a misleading impression of the current status of newer hormonal therapies by stating that a synthetic hormone in monthly injection form is at least a year or two off. Lupron, a widely used synthetic hormone for prostate cancer, should be available in a convenient monthly injection form early next year.

—John H. Seely
Director,
Takeda-Abbott Research
& Development
Abbott Park, Ill

Going for broke

SIR: You state, "The law can't force a landlord to hang on until he's broke" (Fact and Comment, June 13). But the law can sure try.

Until the passage of the Ellis Act in California last year, it was illegal for a landlord in Santa Monica to go out of business without the permission of the Santa Monica Rent Control Board (which is well known for not giving permission to landlords to do anything). Now, a landlord can exercise his right to go out of business, even in the "People's Republic of Santa Monica," as it has been depicted on national television.

—Peter Tompkins
Malibu, Calif

Drug charges

SIR: Your piece "Unwelcome side effects from peace in Afghanistan" (Aug. 8) contains a charge that associates of the President were involved in "financing and protecting drug deals through the National Logistic Cell." The National Logistic Cell, as any other trucking company in the country, is governed by civilian laws and is not exempt from inspection and/or interdiction.

It is also a matter of record that Pakistan's law enforcing agencies have either destroyed or put out of commission 100 heroin laboratories in inaccessible and far-flung areas.

Furthermore, during the crop year 1987/88, about 225 acres of standing poppies were destroyed voluntarily by farmers. 115 acres were eradicated by government agencies and 580 acres

were destroyed by aerial spraying.

—Salim Gul
Counsellor (Press),
Embassy of Pakistan
Washington, D.C.

Review reviewers

SIR: Your repugnant review of *The Last Temptation of Christ* (Fact and Comment, Sept. 19) and your attack on the extremists are unfortunate.

It is not surprising to see a Hedonist attack these extremists. Surely you can comfort yourself with trendy, contemporary apostates that will sustain your views.

—Vincent J. Sterusky
Lansford, Pa.

SIR: Ben Franklin once said that your right to swing your arm in the air ends where my nose begins. I feel that this movie bloodies the nose of all Christians as it crosses the line of respect for religious beliefs.

—James N. Albetta
Spotswood, N.J.

SIR: Would you consider it a "happy irony" if a box office sensation over a film portraying B.C. Forbes as a communist was caused by a conservative protest?

—Marc Palasim
Janesville, Wis

SIR: Would you enjoy a movie about your family that wrongfully portrayed your father in exotic nude scenes with a woman other than your mother? If you protested, by your definition, you would be classified a "family extremist nut."

It is a shame that you do not understand Christianity as much as you do business.

—Brian K. Fulmer
Strasburg, Pa

SIR: I thought I would be a loyal FORBES subscriber until the day I died; however, I must now ask you to cancel my subscription.

—Robert W. Katz
New Orleans, La

Different portrait

SIR: Your Oct. 26, 1987 issue carrying a portrait of Israeli businessman Shoul Eisenberg ("The world's greatest middleman") was brought to my

attention recently. I found the portrait misleading. Mr. Eisenberg to my knowledge is a successful and respected Israeli businessman with businesses that employ over 10,000 people. He was the founder and is the president of the Jewish community in Tokyo.

—Abraham H. Foxman
National Director,
Anti-Defamation League
of B'nai B'rith
New York, N.Y.

Shooting the Bird

SIR: It's very reassuring to see that the Air Force has a Bird Aircraft Strik Hazard team to look after our \$280 million high-speed, low-altitude attack bombers (Other Comments, Sept. 5). It's reminiscent of the story about a team testing jet aircraft windshield for resistance to bird impacts in which three-pound chickens were fired out of cannons. Unfortunately the fellow procuring the chicken fired frozen birds (so they wouldn't spoil), which sailed effortlessly through the test windshields, much to the dismay and finally the amusement of the team leader.

—John C. Lincoln II
Phoenix, Ariz.

Value investing?

SIR: There are 19 funds in this year's Honor Roll (Sept. 5); 4 are no-load funds and 15 impose a load of one nature or another. According to your figures, a \$10,000 investment in each of the 4 no-load funds would have accumulated an average of \$50,806 per fund. A \$10,000 investment in the other 15 would have accumulated an average of \$61,583 per fund, after paying the sales charge!

Could it be that mutual funds are just another area of life where "you get what you pay for"?

—Gary D. Moore
Senior Vice President Investments,
PaineWebber Inc.
Tampa, Fla.

SIR: RNC Convertible Securities Fund should have been listed with the Balanced Funds in your mutual fund guide. The actual yield on our RNC Income Fund is 7.8%. Our Westwind Fund also shows no yield. The actual yield is 2.21%.

—Ronald A. Karron
Senior Vice President,
RNC Mutual Fund Group
Los Angeles, Calif.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

ABSENTEES MAY COST BUSH MORE VOTES THAN HE WON DEBATING

Arguments as to how many more voters Bush won as a result of the first debate with Dukakis will remain conjectural because there's no way to make a definitive count.

But there's an appalling possibility that's an almost certain probability—Mr. Bush will lose a million or so votes on Election Day because hundreds of thousands of businessmen will be on the road, traveling, doing business.

And most of them will probably not bother or will forget to cast absentee ballots.

Incredible, isn't it, that those who are most apt to realize how unhelpful a Bush defeat would be to the economic health of the nation could be the ones to bring it about.

On-the-ball executives should swiftly sound the absentee-ballot alert.

ARTIFICIAL HEARTS ARE THE ACME OF HEARTLESS MEDICAL WASTE

Over the years a quarter of a billion tax dollars, plus countless millions more of private and corporate R&D monies, have been pumped into the development of artificial hearts. They have brought those implanted little or nothing but an extended period of anguish before death.

The National Heart Institute decided to quit pumping \$22 million more into this cruel, failed effort. These doc-

tors planned to divert that hopeless money to more promising heart assistance devices.

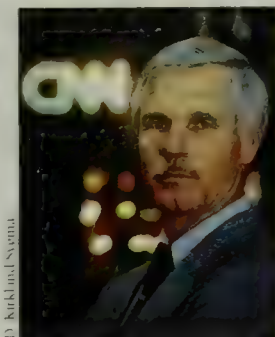
What happened? Senators Ted Kennedy and Orrin Hatch, whose bailiwicks receive artificial heart sums, overruled the nation's top-ranking medical men and forced back that dead-end, heartless extravaganza for artificial hearts.

What a tragic travesty.

IF TED TURNER ENDS UP OUT OF CONTROL OF CNN

It will be a crying shame. The impact of this cable brainchild of his grows with every piece of newly connected home cable. CNN's inroads to date are great. And tomorrow will be impressively more so.

It's thanks to Mr. Turner, too, that Larry Tisch has CBS in his hands. If it hadn't been for Ted's pass at Black Rock, CBS would never have turned to what-turned-out-not-to-be-so-



© Kirkland Syme

pure-a-white-knight Larry. Without TT, what came to pass never would have.

If it hadn't been for ambitions "that o'erleapt themselves," such as the assault on CBS, the Moscow junior olympics, paying too much for that hunk of MGM, this Georgia genius would not be suffering so much southern discomfort financially.

Hang in there, Ted.

ARE WE ENTITLED TO A COMMISSION ON THE IBM-STEVE JOBS DEAL?

It was at the impressively great and happy birthday party that her children gave *Washington Post's* Kay Graham to mark her 70th birthday in the historic Departmental Hall Auditorium in our nation's Capitol last year. During cocktail time I happened on genius Steve

Jobs and asked him how he was doing in his post-Apple-Computer reincarnation. He effervesced enthusiastically about what he was up to.

Not long afterwards I was talking with mighty IBM's John Akers and mentioned how enthused Steve was about

he was doing. "I'd really enjoy meeting him," said . . . In a few minutes I was able to bring them together . . . and the intrigued Jobs was happily jaw-boning with Big Blue's boss.

MAYBE WE HAD IT BACKWARDS WHEN

we happily enthused here (*FORBES*, Nov. 16, 1987) about Massachusetts Institute of Technology's new plan requiring that its embryo engineers devote 20% of their studies to the humanities.

Now, it seems, unless liberal arts students are—promptly—required to devote no less than 20% of their studies to the sciences, the United States will suffer soon the same collapse of its world power and leadership that caused Britain to lose its power and empire. That's the thesis the University of California's Norriss Hetherington set forth on the *Wall Street Journal's* editorial page. Thus:

"The empire was based largely on science and technology. British power has vanished—in large part because too few Britons understood [that].

"Disturbing parallels also can be drawn between Britain's earlier neglect of science education and trends in contemporary America."

Mr. Hetherington makes the point that 160 years ago, the Amherst College curriculum included 2 $\frac{2}{3}$ years of physical science, 2 $\frac{1}{3}$ years of math and a year of biology. In 1850 Harvard required a course in science or math, or both,

So we read with keen interest the other day that they agreed to embark on a multimillion-dollar joint venture

Do you suppose I should share finder's fees with Lal Weymouth and her brothers Don, Steve and Bill Graham

every semester of every year. In 1987 the core curriculum required only 2 half-year science courses.

"College science and engineering students' understanding and sense of control over a predominantly scientific and technological environment leaves them more liberalized than many humanities students trying desperately to cope in an increasingly alien world understandable only in terms of esoteric scientific and technological concepts. Freedom comes from knowledge; knowledge includes astronomy, biology and chemistry as much as drama, English literature and fine arts."

As one bamboozled by math and its above-simple arithmetic forms, and as one all thumbs in school lab work, I hate to admit that the case Mr. Hetherington makes seems to be a reasonable one.

Maybe we could begin by inflicting, say, only a 10% requirement for the sciences? Would that be enough to turn our science/technology descent into ascent?

Anyway, a lot of us count our blessings that we are grandfathered, so to speak, from having to meet such graduation requirements.

MOVIES

● **Midnight Run**—That wonderful rarity, a gripping thriller more riddled with deftly delightful humor than blood and bullets. It's a long movie, but I think you'd have the same problem I did—trying to figure out what you'd want to cut and thus miss. ● **Track 29**—"... beguiling dark comedy," "... surreal treat," said *Time*. If they hadn't given such a write-up to this reel of idiocy, I'd never have gone. Don't you. ● **Tucker**—A most unlikely subject for a movie. Preston Tucker was a flamboyant promoter who, through sheer brass, managed to produce 50 concept cars

that contained few of his way-ahead-of-his-time automobile ideas, some of which later became standard. Bits of the script paint the villains as the Big Three automakers but it shows plainly that Tucker was much more P.T. Barnum than he was Barney Olds. ● **Who Framed Roger Rabbit**—That extraordinary high-tech computer virtuosity that enables real people and real sets to be totally melded with cartoon characters and settings is what makes this movie the year's box office champion. Even if film cartoons are not your bag, this is fun.

SOME CONCEPTIONS STIMULATE SALES



Some don't.

Like this attempt to depict "a spicy new scent." It looks as though the growth coming out of the dispenser would scratch 'ell out of your skin. This nonstarter should have been sent back to the pits.

On the other hand, that cog railway chugging up the side of the glorious Swiss Alps makes you want to get on, and Swissair makes clear it's ready, willing and able to whisk you aboard.



"'BURY ME WITH MY FATHERS,' JACOB SAID TO HIS SONS."

This quotation from the Old Testament keynoted the very moving remarks made by the Reverend Russell Moffat this past June. My brother and I, two of our sons, and friends lowered my father's coffin into the plot containing the graves of his forebears at the church he'd grown up attending in New Deer, Scotland.

Born in this wee Highland hamlet in 1880, he was baptised and learned his catechisms at this Scottish Presbyterian kirk. Every day of his life that he was able, he read a few verses from the Bible to himself in the morning. Occasionally, he'd remark to his five sons that he'd been totally through the Bible three times and, when he died at 74 in 1954, was well into his fourth.

My father was not buried in Scotland originally because my mother had a plot for him in a cemetery in

New Jersey where we lived. But knowing how strongly he'd felt about his roots, my brother and I decided a year ago that he'd be most happy to be back home in Scotland at the kirk that had had such an influence in his life. So this summer, the surviving two of his five sons, five of his grandchildren and six of his great-grandchildren as well as several Scottish cousins gathered with a number of friends for what Rev. Moffat beautifully and perfectly described as a "joyful occasion."

"B.C. Forbes, going from humble beginnings here to fame and fortune in the United States, never forgot his roots. He may have lived most of his life in America, but New Deer, here in Scotland, was always his home, and it is fitting that his remains should now be laid to rest in this, his native land."



Alastair Devine-Dark Record

HINDSIGHT IS SUPPOSED TO BE A SYNONYM

for near-perfect vision. "Looking back, it's clear. . . ." Baloney. How many people do you know, including yourself, who don't repeatedly repeat past mistakes? Hindsight is selective vision, not perfect vision.

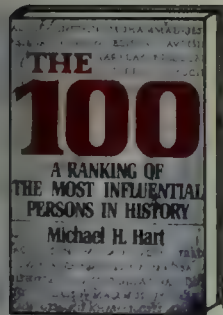
EVERYTHING TASTES GOOD

when you're on a diet.

WATCHING YOUR DIET

is easier than following it.

BOOKS



● **The 100**—by Michael H. Hart (Citadel Press, a division of Lyle Stuart Inc., 120 Enterprise Ave., Secaucus, N.J. 07094, \$12.95). This is what the subtitle says—"A Ranking" of author Hart's choice "of the Most Influential Persons in History." While some of the picks are out of left field and many wouldn't be on someone else's list, it's a thoroughly fascinating, enlightening exercise.

Excerpt: I must emphasize that this is a list of the most influential persons in history, not a list of the greatest. For example, there is room in my list for an enormously influential, wicked, and heartless man like Stalin, but no place at all for the saintly Mother Cabrini. I have ranked these 100 persons in order of importance: that is, according to the total amount of influence that each of them had on human history and on the everyday lives of other human beings. They are the people who have shaped our lives and formed our world. My ranking Muhammad higher than Jesus is in large part because of my belief that Muhammad had a much greater personal influence on the formulation of the Moslem religion than Jesus had on the formulation of the Christian religion. This does not imply, of course, that I think Muhammad was a greater man than Jesus.

● **The Poor Boy's Guide to Marrying a Rich Girl**—by Brian Ross Duffy (Penguin Books, \$6.95). As my son Kip observed to the author, "Since a man cannot be assured of picking rich parents, he can make up for it in the artfully careful selection of his bride's parents. If the book does as well as the subject and treatment merit, your own daughter will have to read it and beware!"



Excerpts: Rich girls have always lived on hills. Since medieval times, hills have provided safety (castles and citadels were built on hills), the best climate (sunshine and perennial breezes), freedom from disease (sewage runs downhill), and, most important, a marvelous vista from which to view less affluent peers. This custom continues today, whether on Chestnut Hill (Philadelphia), Carnegie Hill (New York), Beverly Hills (Los Angeles), Beacon Hill (Boston), or Mission Hills (Kansas City). "Head for the hills" has a whole new meaning now, doesn't it? . . . Since the rich girl's home is so important to her life, I suggest that the serious reader do independent research. Every poor boy would profit by subscriptions to both Architectural Digest and House & Garden. Remember, you'll be sharing this life (and house) someday, so get acquainted with it early.

THE MING DYNASTY AND THE SPACE STATION

In China discovered Europe.

This is the way history might have been written but for a sudden and fateful change of policy on the part of the Ming Emperors.

In the early 15th century China was the most advanced power on Earth. The Middle Kingdom led the world in such decisive technologies as gunpowder, printing, metallurgy, engineering, and medicine.

Navigation was also in China's strong suit. Between 1405 to 1433 vast Chinese fleets, which would dwarf much later European expeditions, were already exploring and opening up trade routes westward. By the

View of the Imperial Court, Beijing, Anon. 17th Cent., Bibliotheque Nationale, Paris



of sixty-two ships and 28,000 men had reached
east coast of Africa. It was only a matter of time
the Chinese discovered Europe.

Then, in a sudden policy reversal, the Ming Em-
perors halted all further voyages and began to foster
an atmosphere of xenophobic conservatism. Science
and technology decayed. Trade became passive. And
the next five centuries saw China become one of the
most exploited nations.

The United States now also finds itself at a critical
moment in history. So many domestic and defense needs
that investment in space exploration seem, by com-
parison, of lower priority. The funding of our orbiting
Space Station, indeed, our whole space program,
is to be politically in doubt.

One thing that is inevitable, though, is that humans
will continue to reach out into space. It is in our nature.
And whether space is explored by the United States
or the Soviet Union or Europe, it will be explored.

Had the Ming Emperors not hamstrung China
five hundred years ago, history undoubtedly would
have taken a dramatically different turn. But their mo-
ment was lost.

The direction the United States now takes into —
or away from — space will have implications for our
fate during the next five hundred years. Our moment
is now.

 **Lockheed**
Giving shape to imagination.



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Sweet Revenge

Lyndon Johnson was tough on speech writers, demanding, impossible, some said. One writer had had it up to here and decided to quit. His final speech for the then senator was put into Johnson's hands in ample time for him to read it, but the writer knew that LBJ probably would not. As usual, the writer put only a few lines on a page to make the reading easier for his boss. The script went along like this:

YOU KNOW, AS I DO, THAT THIS COUNTRY MUST TAKE CARE OF THE NEEDS OF OUR UNDERPRIVILEGED. (turn page)

YOU KNOW AS I DO THAT INCOME TAXES MUST NOT BE RAISED BECAUSE NOW MORE THAN EVER WE MUST PROVIDE INCENTIVE FOR INVESTMENT AND JOBS FOR OUR PEOPLE. (turn page)

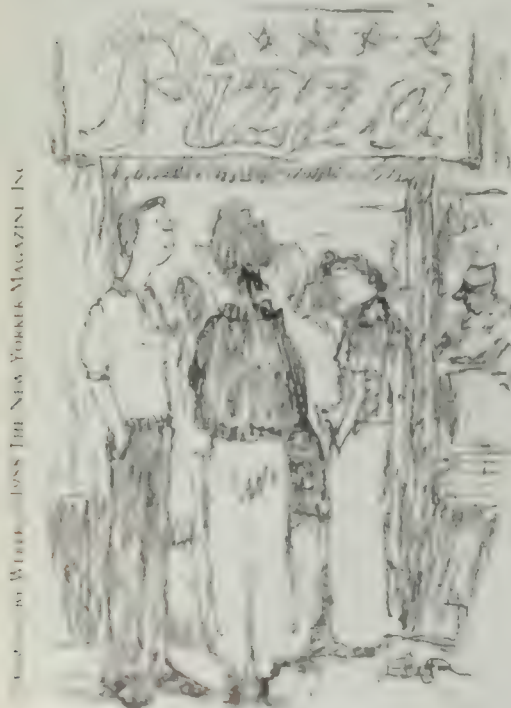
BUT HOW, YOU ASK, ARE WE TO PROVIDE THE FUNDS WE NEED, MAINTAIN A BALANCED BUDGET, AND STILL NOT RAISE TAXES? LET ME TELL YOU HOW RIGHT NOW. (turn page)

(OKAY, SMART GUY, YOU'RE ON YOUR OWN!)

—Osgood on Speaking, by Charles Osgood

What's a Fact?

In what I consider [journalist Walter] Lippmann's greatest book, *Public Opinion*, he says that people have



"I really like to have a business man come in and I have to be there much."

no trouble accepting the fact that there are many opinions, but they can't accept that there are many sides to a "fact." And facts are often determined by how you see an issue, by the predisposition that you bring to it.

—Ronald Steel in *Extraordinary Lives*, edited by William Zinsser

Caterpillar Out

If you recall your P.G. Wodehouse, Wooster is the frivolous English gentleman whose butler, Jeeves, is forever devising complicated schemes to get him out of trouble. Jeeves handles Wooster's purple socks, for example, "as if he were a vegetarian fishing a caterpillar out of the salad."

—John Berendt, *Esquire*

Mad Mercedes

Depending on the country, Europe suffers six to eight times fewer murders and violent assaults than America. But the person who stays in Europe long enough begins to sense other stirrings behind the aura of European civility. For example, the violent blinking of lights on the *Autobahn* in Germany. A Porsche or Mercedes pulls up behind you and rides the tail of your car. You are already going higher than the speed limit. It is not sufficient for the car behind you. You feel the quick flame of his wrath, you see in your mirror the eyes beginning to bulge, you hear the hand now banging on the horn. He would toss you off the road if he had a gadget that could do it: not a mine sweeper, a car sweeper is what he yearns for.

—Stuart Miller, *Painted in Blood: Understanding Europeans*

Brez for Bush

Mr. Bush announced in Washington the appointment of a [campaign] national security task force, featuring such personal antagonists as Senator Jesse Helms and former Secretary of State Henry A. Kissinger. But the member who drew the most attention was Zbigniew A. Brzezinski, President Carter's national security adviser.

Mr. Brzezinski called himself "a card-carrying Democrat" and said

that he agreed to go on the task force because "I just have the feeling that Dukakis' view of the world is basically out of touch with the difficult realities of the world."

The Democratic nominee's policies, he said, "by weakening nuclear defense, might enhance the probability of conflict." He said that Mr. Bush was closer to the views of conservative Democratic senators like Senator Nunn and Lloyd Bentsen and that Mr. Dukakis was "closer to Jesse Jackson and Jane Fonda."

—Maureen Dowd, *New York Times*

What someone tells you in words is what he would like to be true. What he shows you in action is what is true

—David Mahoney, *Confessions of a Street-Smart Manager*

Human or Heartless?

We have to ask ourselves whether medicine is to remain a humanitarian and respected profession or a new but depersonalized science in the service of prolonging life rather than diminishing human suffering.

—On *Death and Dying*, by Elisabeth Kubler-Ross

Backbiters

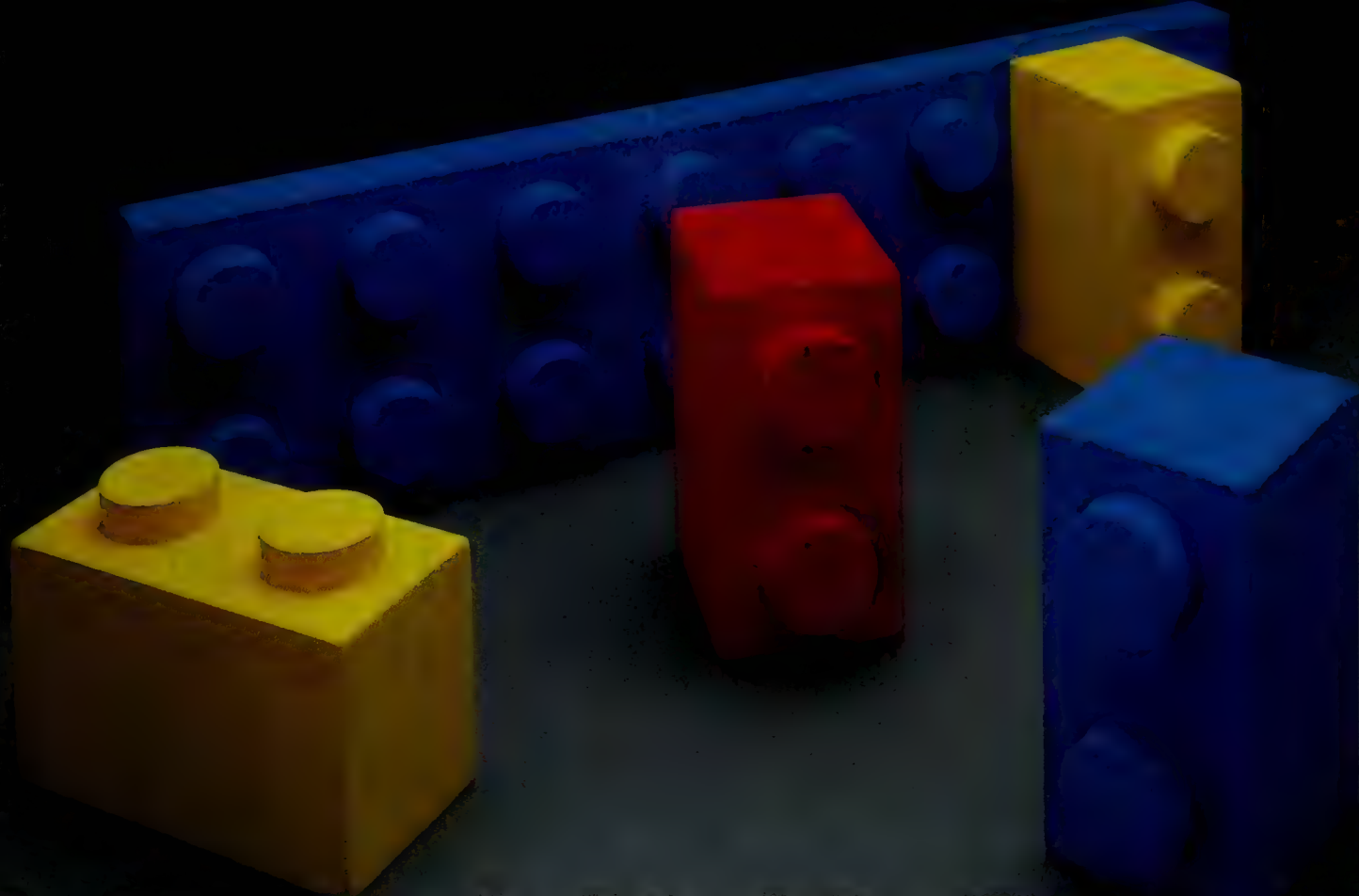
Most American writers who have left a mark upon our century left their birthplaces as well—places with names like Oak Park and Camden, Pottsville and Sauk Centre. They left to escape provincialism—that dullness of spirit which diminishes first the life of the mind and then human charity itself. In this century skepticism about the quality of heart that the heartland reveals has acquired a distinctive virulence. H.L. Menck set the tone early, and hard upon Mencken came Edgar Lee Masters, Sherwood Anderson and Sinclair Lewis—none with a good word to say about life in the old hometown. You can always trust a writer to bite the land that breeds him.

—Peter S. Prescott, *Newsweek*

Repeaters

So if Cicely Tyson married Mike Tyson, she'd be Cicely Tyson Tyson. And if Rosemary Clooney married Mickey Rooney then divorced him for Andy Rooney, she'd be Rosemary Clooney Rooney Rooney.

—Cindy Adams, *New York Post*



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1983 Car and Driver Ten Best List.
1984 Car and Driver Ten Best List.
1985 Car and Driver Ten Best List.
1986 Car and Driver Ten Best List.
1987 Car and Driver Ten Best List.
1988 Car and Driver Ten Best List.

There's a pattern here somewhere.



The 1989 Accord LXi.

HONDA

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



CHINA PAYS FOR BAD ADVICE

Marxism wrecked the Chinese economy once.

Will Western economic advice undermine it now?

So it seems. China's economy today is in turmoil. The unquestionable success of Deng's changes are threatened by a wave of inflation, the severity of which can be laid at the doorstep of the International Monetary Fund's and other Western experts' destructive recommendations.

These people were horrified by China's burgeoning trade deficits, and they urged the government to devalue its currency to help turn the situation around. Beijing started doing just that a couple of years ago. The result is a wave of rising prices, which is threatening the legitimacy of Deng's trip down the capitalist road. These same purveyors of poor policies, believing that growth causes inflation, also pushed austerity. China has thus cut back investment and raised taxes. The result is predictable—the kind of stagflation that afflicted the West in the 1970s.

The Chinese government should take its cue not from what our economists say but rather by what successful nations have actually done. There are plenty of good examples: the U.S. in the 19th century; Germany and

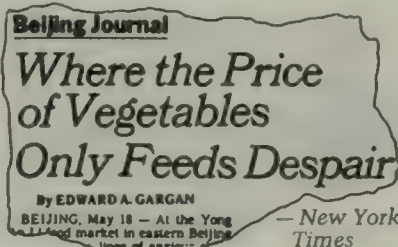
Japan in the 1950s; Korea in the late 1970s and 1980s, not to mention Hong Kong and Singapore.

On the inflation front, it means stabilizing the currency, which has fallen almost 60% against the dollar. At home it means continuing to loosen up regulations, doing away with recently imposed price controls and cutting taxes and tariffs.

A burgeoning trade deficit is part and parcel of a growing economy, especially one that had been as backward as that of China.

As Jude Wanniski, a progenitor of the American supply-side movement, puts it: "A steady dose of these ideas [such as devaluations are good and trade deficits are evil] from the West's collection of Nobel Prize winners would undermine the free-market reforms in the People's Republic of China just as surely as they have ravaged the Third World."

Fortunately, the U.S. was not plagued with cadres of IMF experts when we became an independent nation. We routinely ran trade deficits for more than 100 years afterwards and in our ignorance became—and have remained—the mightiest nation on earth.



NIHILISM IN THE PARKS

The frightening Yellowstone fires this summer should send up in smoke the laissez-faire philosophy that has dominated the management of our national parks since the early 1970s.

The core idea of the National Park Service is that nature, not man, is the best manager of our lands. Thus forest fires ignited by lightning are not put out (except under special circumstances) because these burns are part of nature's way of rejuvenating the land. If a species is threatened, the inclination is to do little to save it.

The basic philosophy is flawed. Nature is not always benign. It is often more destructive, capricious than man.

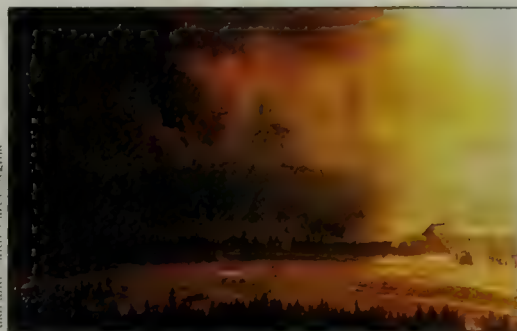
The very creation of a preserve will change the dynamics

of an area, benefiting some species and damaging or extinguishing others. Since the laissez-faire philosophy took

hold, elk have multiplied while brown bears, grizzlies and deer have had a difficult time of it. Years ago, Yellowstone had thousands of beavers. Today, there are virtually none.

Yellowstone would never have been so vulnerable to such sweeping destruction if there had been prescribed burns under favorable conditions over the past 20 years. These and other sound practices are routine in privately owned forests.

There is no such thing as automatic pilot in running these parks. Like it or not, man must have a hand in preserving these preserves.



Man and Smith Carey Segura

Our transformation into a business bank didn't happen overnight.

At Continental Bank, we recently announced our departure from the consumer banking business, and our exclusive commitment to the business banking business.

To our surprise, this announcement generated a certain amount of brouhaha in some quarters. You'd think we had decided to diversify into vinyl siding, or to become professional wrestlers.

But in truth, there's no cause for fuss. Because this change is really nothing more than the inevitable end of an evolutionary process that's been going on for quite a long time.

How long? Well, Continental traces its origins back to 1857, when a group of enterprising Chicago businessmen formed a bank to look after the interests of enterprising Chicago businesses. Of course, it wasn't long before the young bank also began accepting accounts from the public at large. But over the ensuing decades, we always maintained a clear sense of which side our bread was buttered on. Our heart, then as now, belonged to the world of commerce.

Following the depression, for instance, we made it our primary mission to help American business nurse itself back to health.

In the early 1960s, when multinational commerce was barely an incipient

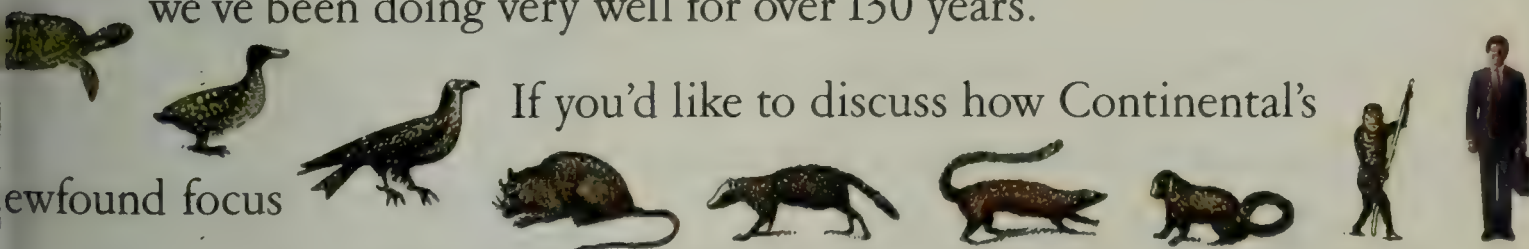
end, we opened full-service offices in Great Britain and Japan.

And in the 1970s we developed nationally-respected capabilities in leasing, corporate finance, mergers and acquisitions, and cash management.

As you might expect, our long history of service to business has not gone unrewarded. Today Continental is counted among the premier business banks in America; and we count among our customers over one-half of the companies listed on the Fortune 500, as well as literally thousands of smaller firms nationwide. If we decided to rest on our laurels, the world would likely understand.

But while we're proud of our position, we're also less than totally satisfied with it. After all, would you settle for being near the top when you possessed the capability to be at the top? Which brings us right back to the beginning of our story: to the announcement of our transformation into a dedicated, no-holds-barred, full-blooded, undistracted, singleminded bank for business.

By now it should be clear that we didn't make this change because we wanted to do something new. We made it because we want to do even better what we've been doing very well for over 130 years.

 newfound focus

If you'd like to discuss how Continental's

can benefit your company, we invite you to call us at (312) 828-4341.

We've evolved, yes. But considering what we evolved from, we'll have no trouble at all standing on our own two feet.



Continental Bank
A new approach to business.

As it turns out, "Take from the rich and give to the poor" is a pretty good corporate finance strategy.

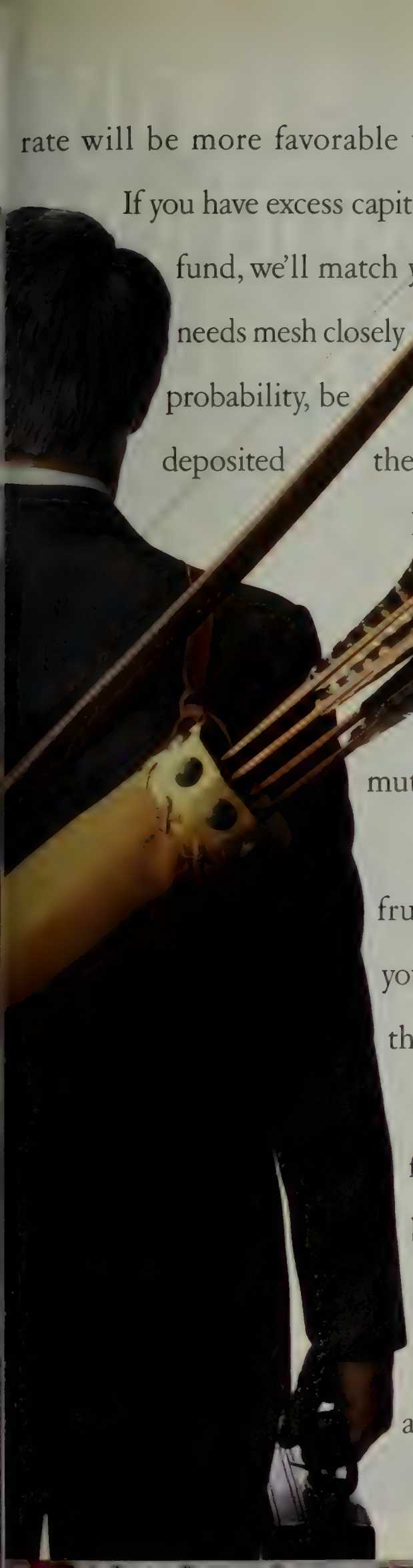
At Continental Bank, we consider ourselves to be among the more steadfast champions of capitalism. And, as such, we may strike you as somewhat unlikely advocates for the redistribution of wealth.

But if you're an organization with money on its hands, or an organization that wants to get its hands on some money, it can make all kinds of sense.

That's why we at Continental have always taken such an active role in the arrangement of transactions between those who have funds and those who need them.

Traditionally, of course, banks have operated primarily as reservoirs of capital, taking in deposits and extending loans as the occasion required. But while we, too, serve that time-honored function, we also offer a host of somewhat less traditional, somewhat more interesting finance alternatives.

If you need capital, for example, and we can't satisfy your requirements within our regular range of loan products, we'll match you with an outside investor who can. Very likely, the interest



rate will be more favorable than most banks could offer.

If you have excess capital, or if you're managing an investment fund, we'll match you with a corporate borrower whose needs mesh closely with yours. Your rate of return will, in all probability, be higher than you could expect to earn if you deposited the funds with us or any other bank.

No matter which side of the fence you're on, our worldwide network of corporate and institutional contacts offers you a rich source of opportunities to establish mutually fruitful relationships.

And to make sure they stay mutually fruitful, your Continental banker not only sets up your transactions, but manages them and monitors them from beginning to end.

Whether your company is among the fortunate rich or the momentarily poor, it would behoove you to call us at (312) 828-4341. You'll find that intelligent business banking, like so many other things, is a simple matter of give and take.



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New York metro area; cars must be returned to renting location; refueling charges (if you don't refill the tank); and a mileage charge over 75 miles a day (32¢ or less per mile). Taxes, Loss Damage Waiver, and other optional services are extra. If you're under 25, rates are higher.

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Hertz

Edited by Howard Banks

ELEPHANTS, DWARFS AND ELVES

**The long road
to a new
GATT agreement**

A MULTITUDE OF SPECIAL-INTEREST TRADE GROUPS is working feverishly in Geneva.

The groups' titles are frivolous, but their purpose is not. Come December, trade ministers will gather in Montreal for a vital midterm review of understandings, reached in September 1986 in Uruguay, under the General Agreement on Tariffs and Trade. The Geneva talks can pave the way.

The Three Rogue Elephants there (the U.S., the European Community and Japan) sometimes become the Big Four, when Canada is included. The Seven Dwarfs are these four plus Sweden, Switzerland and Australia, which sometimes grow into the 12 Elves (a.k.a. the Dirty Dozen), which is the EEC, representing all 12 member states plus most of the rest of the OECD's 24 member countries, covering the industrialized, developed world.

The list goes on, sometimes with informal groups (some meet over lunch), some with fluctuating membership. The most influential is the Cairns group, which tackles the contentious issue of agriculture.

**The Cairns group's
problems are down
on the farm**

THE U.S. AND THE EEC ARE INCREASINGLY BAD-TEMPERED in their dispute over ending—or even reducing—farm subsidies.

Where's gratitude, demands the EEC, for cuts made in EEC subsidies on beef, milk, cereals and soybeans? When will the U.S. respond, say, by less protection of sugar?

Nuts, says the U.S. (where subsidies will be astronomical this year, thanks to drought relief). EEC subsidies have been cut only through production controls, and American experience shows they won't last. Only cuts in price supports and export subsidies truly signify.

Between these two is the Cairns group, named for the first meeting in Australia of 13 countries—developed (Australia, Canada and New Zealand), developing (including among others Argentina, Brazil, Thailand and Uruguay), and communist (Hungary). All depend on farm exports, all fear the big guys' market-distorting subsidies.

**The Elephants'
proposal on services
provides hope**

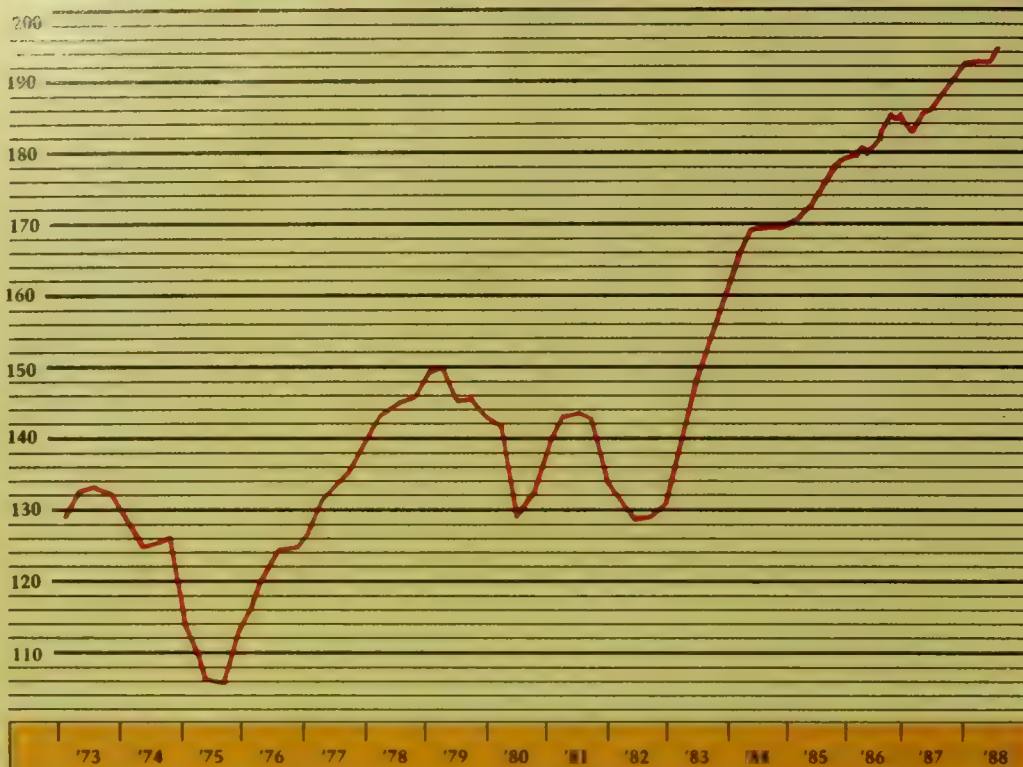
THERE ARE SOME POSITIVE INDICATIONS for further progress in Montreal, not least that the U.S. has not yet lost patience.

Yes, there are problems, among them the U.S.' leaning toward bilateral deals—like the one with Canada, which may be extended to Mexico, and perhaps repeated with Japan. And agreement within GATT to protect intellectual property means overcoming such small-country complaints as Brazil's about paying dollars for medicines that cost cents to produce. There are also deadline conflicts (1990 for a new GATT agreement, 1992 for the creation of a unified European market).

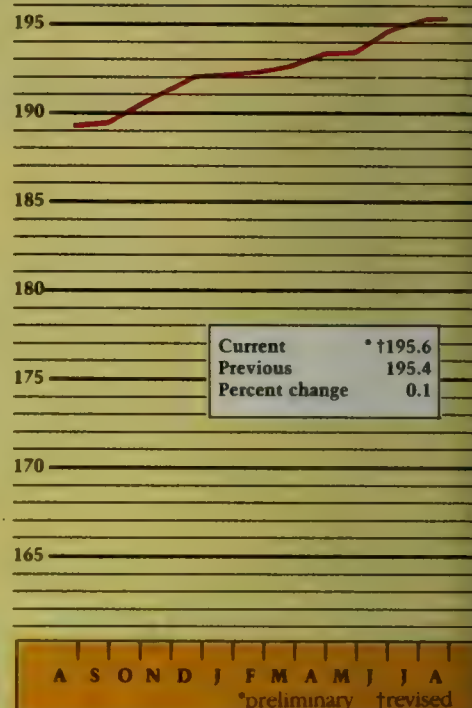
But look at services, of great interest to the U.S. and the EEC. The service industries of the U.S. (led by Citicorp's John Reed), the EEC and Japan have proposed a common deal to their governments. Smaller countries are understandably concerned. But when the three Elephants act in concert, progress—on this at least—looks certain.

The Forbes Index

Forbes Index



12-month closeup



Slowing down. The economy seemed to be slowing down in August. Personal income moved up 0.3%, the smallest increase since June 1987. Consumers cut back on spending, as August retail sales dropped 0.3%, the first decrease in four months. Housing starts fell 1.9%, to 135,000 units. Through the first eight months of 1988 monthly home building figures have been consistently below year-earlier

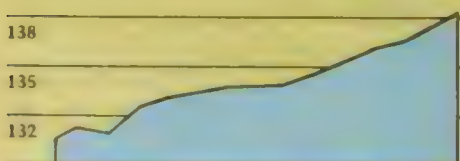
levels. Industrial production edged up 0.2%, versus a 1% gain the previous month.

The Consumer Price Index finished August with a 0.4% gain, mostly because of higher food, shelter and energy prices. The services component of the CPI rose 0.5%. The best bit of news came on the job front, where new unemployment claims for August fell 6.6%, to 305,900.

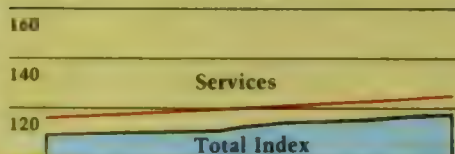
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

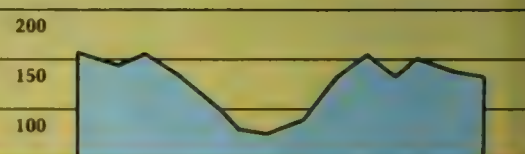
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



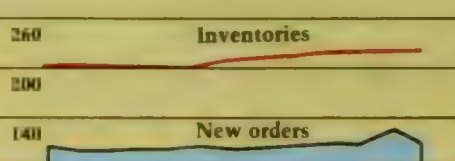
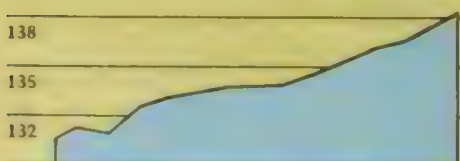
Industrial production index (1967 = 100)
seasonally adjusted (Federal Reserve)



Consumer price indexes (1982-1984 average = 100)
all urban consumers, unadjusted (Dept. of Labor)



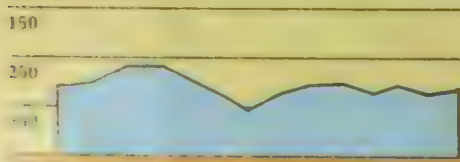
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



Manufacturers' new orders and inventories
(\$billions) seasonally adjusted (Dept. of Commerce)



Personal income (\$billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Retail store sales (\$billions)
seasonally adjusted (Dept. of Commerce)

Consumer installment credit (\$billions)
total, seasonally adjusted (Federal Reserve)

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Are further declines in the dollar the only thing that will shrink the U.S. trade deficit? Not necessarily. A good many U.S. companies might become a lot more competitive if they judiciously pruned their white-collar work forces.

White-collar bloat

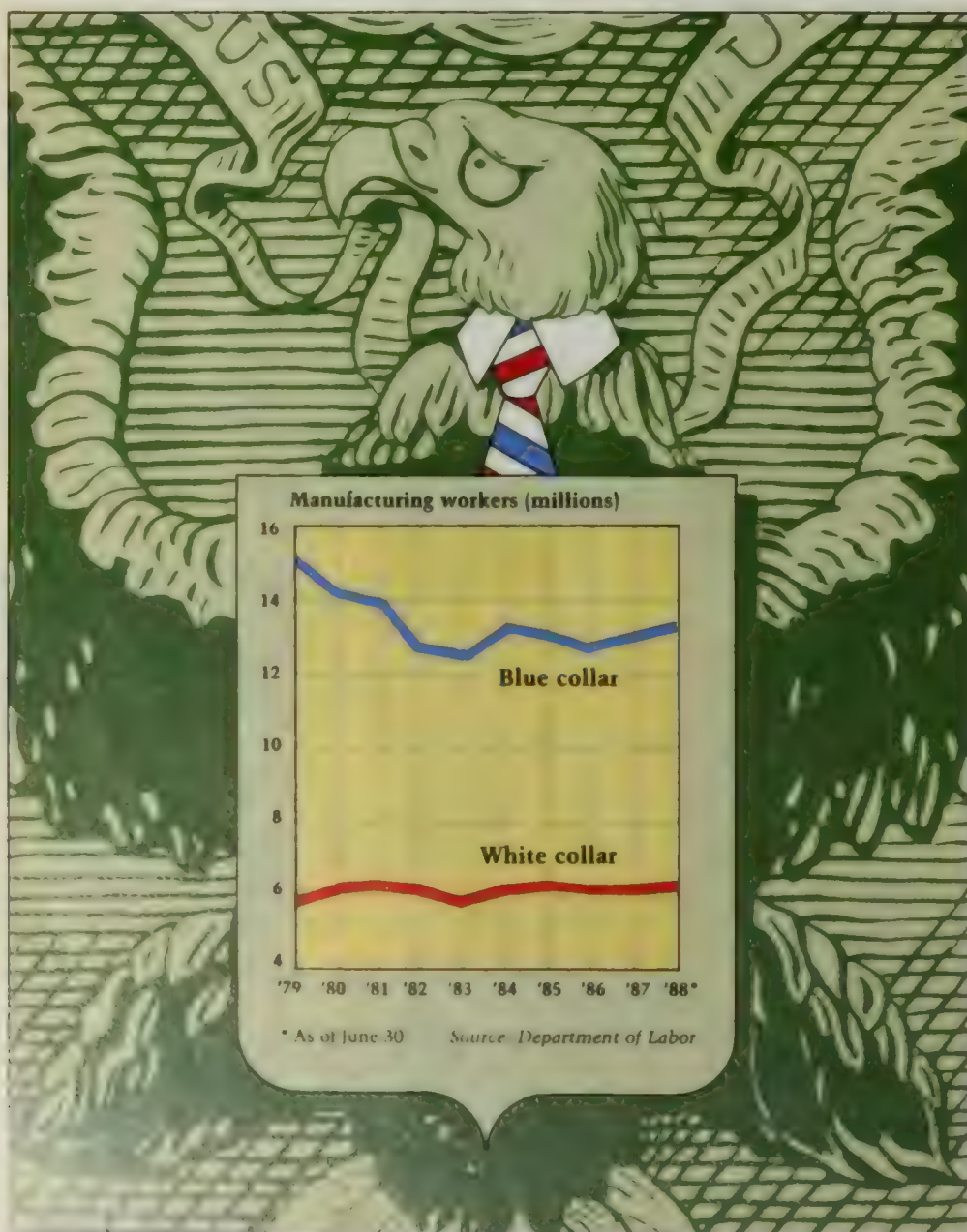
By Edwin A. Finn Jr.

IMAGINE AMERICA'S white-collar work force as a man we'll call Henry J. Sloth. Folks like Henry, he's a jovial sort. But he has this odd thing. Though Henry weighs 300 pounds and is always talking up his latest diet, he keeps getting fatter. Oh yes, there's one other thing about Henry: No one at the office seems really clear what his job actually is.

Despite repeated headlines about white-collar layoffs and early retirement programs for executives, U.S. manufacturers have in fact allowed their white-collar work force to grow 5% during the past decade. This at a time when the nation's blue-collar factory work force has shrunk 11% (see chart). What's more, productivity on the factory floor has jumped over 40%, versus a gain of perhaps only half that for white-collar workers.

"Our large manufacturing companies on average have many more layers of management and supervisors than our leading foreign competitors," says Thomas Hout, a vice president at the Boston Consulting Group. "That makes our prices higher." Hout figures that by slashing away at this burgeoning bureaucracy, U.S. manufacturers can lower their costs by as much as 15%, giving a badly needed boost to the nation's international trade balance, which, although improving, is now running at a deficit of about \$140 billion annually.

American companies have spent billions in factory and office automa-



Andy Christie

tion. But far less has been spent slimming down the ranks of white-collar workers themselves. "When it comes to the back office, nobody knows how much waste there is," says Hout. "I tell a company that 80% of their order delays are caused by their office staff, and they are amazed. But it's true."

Some American companies have begun to grapple with white-collar bloat. International Business Machines Corp. has moved about 17,000 employees, largely administrators and staff workers, into more productive areas such as sales and programming. AT&T is doing the same with 3,000 administrative workers. Chrysler is about halfway through cutting its white-collar work force 20%. Since the start of the decade, Xerox Corp.'s copier division has cut its worldwide manufacturing work force by 40%, to 10,000, eliminating mainly white-collar workers and indirect labor. Until then, the company had 13 white-collar workers or indirect laborers for every 10 people who actually made products.

Companies that are family-owned or private have been particularly successful at holding down white-collar bloat. Two examples: Milliken & Co., the family-run textile outfit, and United Parcel Service, the private transport firm. Among publicly traded companies, Magna International is a standout; the Canadian auto parts manufacturer holds its overhead to a skimpy 10%.

What does all this white-collar efficiency have to do with the trade deficit? In Xerox' case, the cutbacks have helped increase the company's share of the U.S. copier market (excluding personal copiers) to 16% today, from 11% in 1983, backing Japanese rival imports out of the market. Or take Caterpillar Inc., which in the past three years has seen its exports jump 22%, to \$2.2 billion. The weak dollar has helped, but Caterpillar's increase in exports would be far less if it hadn't lowered costs by trimming 26% of its U.S. white-collar work force.

Still, the vast majority of big U.S. companies seem to be groaning with white-collar bloat. Computers were to streamline back-office operations, but often the new systems have proved either too powerful or complex to suit a particular company's needs. Result: more technicians and specialists than ever on the payroll.

Is your company too tubby? Rules of thumb vary among industries, but white-collar overhead at America's most competitive companies has been cut to about 15% of a manufacturing company's costs. With many

U.S. companies running at nearly 30%, there is room for improvement.

A decade ago, America's blue-collar workers began to feel the heat from lower-paid Asian laborers. Now white-collar workers in the U.S. will

have to share the pain, especially since they surpass, in numbers and in wages, their counterparts abroad. This time, Henry J. Sloth, you're going to have to go on a diet and stick to it. Really. ■

Merging Baxter Travenol with American Hospital Supply created a powerhouse. So why all the Wall Street grumbling?

What have you done for us lately?

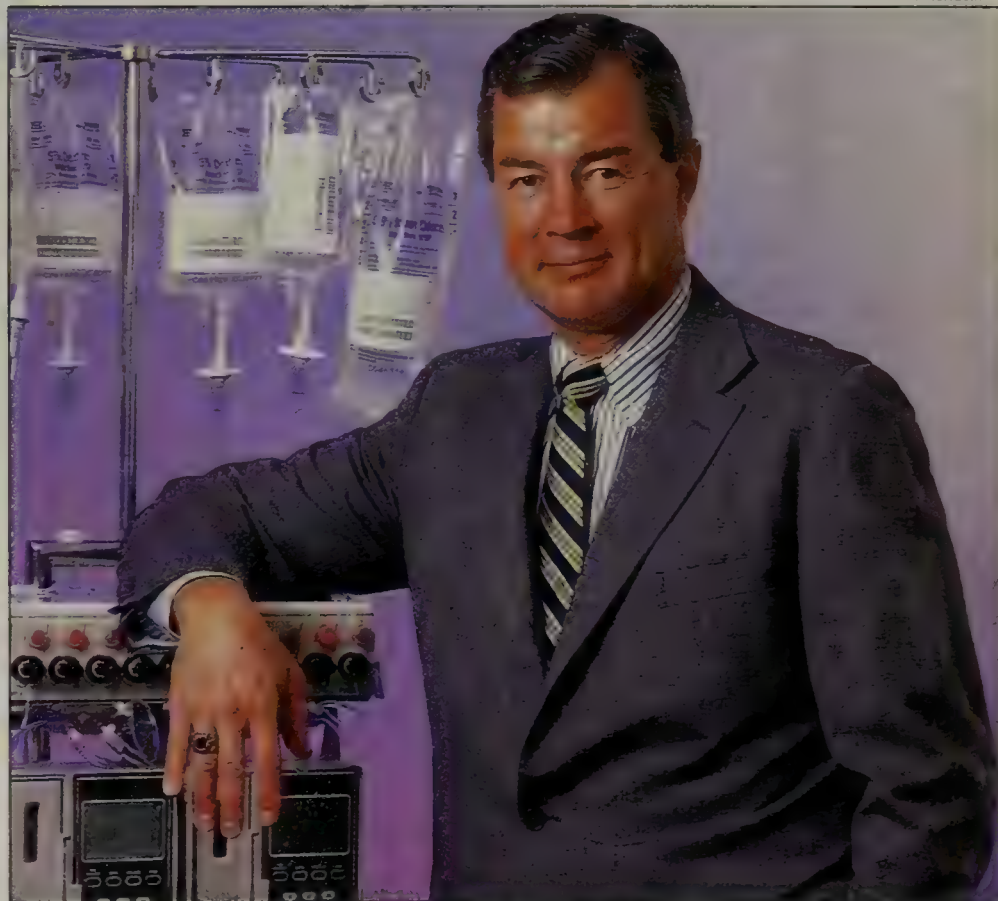
By Rick Reiff

VERNON R. LOUCKS JR. is learning, the hard way, how harsh Wall Street can be these days.

Scarcely three years have passed since Loucks, 53, chairman and chief executive of Baxter International Inc.,

the \$6 billion (sales) Deerfield, Ill.-based manufacturer of medical products, put together one of the boldest mergers his industry had ever seen. In 1984 the U.S. government, trying to control mushrooming medical costs, had clamped down hard on Medicare reimbursements, sending hospitals

Paul Merideth



Baxter International Chairman Vernon R. Loucks Jr.

"I've got a great distribution system and it needs to be fed."

and their suppliers like Baxter, then Baxter Travenol Laboratories, into a tailspin. Baxter's earnings dropped 87% from the year before, to a meager \$29 million.

Loucks' stunning response: the \$3.7 billion purchase in 1985 of a bigger competitor, American Hospital Supply Corp. The companies fit, and Baxter began moving its popular intravenous solutions and blood products through American Hospital's superior marketing and distribution systems.

Results improved steadily. Loucks closed redundant facilities, combined product lines and eliminated 5,000 of 62,000 jobs. Market share improved along with margins. On a 12% gain in sales last year, operating earnings jumped 75%, to \$1.10 a share. Net income in the first six months of this year was up 27%, to \$182 million, or 61 cents a share, compared with the same period a year ago.

Not bad, you say? Not good enough, says Wall Street.

Loucks had been suggesting a 30% jump, to \$1.50 a share, in earnings this year. He had thought the new efficiencies would continue generating enough cash to keep Baxter expanding faster than the industry and developing new, high-margin products as well. Baxter will spend \$450 million this year alone to expand plants and warehouses, for example, and \$1 billion through 1991 to boost research and development.

But in late September Loucks discovered he'd guessed wrong and lowered the earnings goal; Baxter was spending more than it had anticipated to meet growing demand. Earnings would probably be up only 20%, to \$1.32 a share, Loucks conceded.

Securities analysts and investors roared like wounded buffalo. Investors drove the stock down four points in one week. "I have no confidence in their earnings outlooks," grouched Drexel Burnham Lambert's Larry Feinberg. At its recent price of 17 $\frac{7}{8}$, a postcrash low, Baxter was selling at 14 times its trailing 52-week earnings, below the 16 multiple of its more profitable rivals, Abbott Laboratories and Johnson & Johnson.

Is this simply another example of Wall Street's excessive preoccupation with the short term—the old “you're only as hot as your last quarterly report” problem? Not entirely. Baxter International certainly has work to do before it becomes top-drawer, high-multiple stuff. After all the post-merger squeezing, it remains essentially a high-volume distributor of low-margin products. Baxter enjoys only a 15% net profit margin and 10%

return on equity, compared with the 15% margin and 30% return of Abbott, which unlike Baxter is big in nutritional products and sophisticated diagnostic equipment, where gross margins typically exceed 40%.

But that is precisely why Loucks is spending money now. “I've got a great distribution system,” he says, “and it needs to be fed.”

In several other ways Baxter seems well positioned to keep earnings growing. After five years of single-digit growth, annual hospital spending in the U.S. is again expected to grow by more than 10%—a boon for Baxter's unmatched distribution network. Eight hundred Baxter trucks make next-day deliveries on orders placed from Baxter computer terminals in 3,000 hospitals nationwide.

Cost-containment efforts by hospitals are playing into Baxter's hands, too. Baxter entices big buyers into multiyear contracts with volume discounts, rebates and a raft of value-added services, from management consulting to software. Forty percent of its U.S. hospital sales come from long-term pacts emphasizing such “partnership” arrangements.

Baxter is also on top of the trend toward out-patient and at-home care, now a \$1-billion-a-year business for

the company with its 1987 purchase of Caremark Homecare Inc., a provider of medications for recuperating and bed-bound people. Sales of kidney dialysis systems and other items in the home care market grew 13% in the first six months of this year. Baxter foresees even stronger growth ahead in part because more victims of acquired immune deficiency syndrome (AIDS) will be treated at home.

Long-term promise, short-term risk is a proposition that does not sit well on The Street these days. Last month Baxter was rumored to be among the possible takeover targets of investor Ronald Perelman. Analysts estimate that Baxter busted up is worth between \$25 and \$30 a share—as much as 67% more than its recent price. Jerry Fuller of Duff & Phelps Inc. figures it would take almost \$9 billion to buy the company, counting its \$1.7 billion of debt.

Loucks is trying to keep investors happy. That's why, although it has other uses for the money, Baxter now distributes 40% of its profits in dividends, compared with less than 20% before 1984. “Stockholders have certain expectations,” he explains. “I don't want them to think that the only way to get something out of Baxter is to acquire it and split it up.” ■

Bob Congel will do anything to build mammoth malls in Rust Belt cities that time has passed by. And competitors will claim anything to stop him.

While Syracuse sleeps

By Richard Behar

IT'S 6:30 A.M. and, while Syracuse sleeps, a roomful of ambitious young men sit ringed around a conference table as their leader, Robert Congel, paces back and forth behind his chair at the far end. Like a battalion of white-collar Marines, and through microphones and desktop speakers that are connected to construction sites across the Northeast,

Congel and his aides engage in their predawn business of preparing for another day of battle. The enemy: an unholy alliance of downtown merchants and environmentalists that has formed to resist his mall-building juggernaut. “We're considered the Green Berets of mall-building,” boasts one executive.

By hard work and persistence, Congel's Pyramid Cos. has grown over the last decade to become the biggest and



Robert Congel in Syracuse's 800-acre eyesore
"The most important thing in life is persistence."

Michael Green/Ar Picture Group

a planned Pyramid mall. Vows the mayor, "This will be the biggest development battle in the history of Vermont." As part of the effort, city officials are distributing videotapes that feature interviews with regional officials bad-mouthing Pyramid. More opposition is being whipped up in nearly half a dozen other cities where Congel plans to situate malls.

Pyramid is aptly named. The privately held firm is actually tiers of partnerships, with Congel himself at the apex, owning anywhere from 50% to 90% of each project. Congel's minority partners are usually young lawyers and M.B.A.s to whom he lends money for a stake in the venture, a tactic that builds fierce loyalty. "They're here at 6:00 in the morning six days a week with enthusiasm and hunger," says Congel, who looks for "unemotional and highly aggressive" personalities in

those he brings aboard.

Congel is just as demanding with his malls. Pyramid takes a percentage of each mall retailer's sales, typical for the industry. But Congel goes a step further with clauses that allow him to remove a tenant if he fails to meet sales targets. Result? Pyramid stores average \$250 per square foot per year, versus \$170 for the industry.

To get his malls up and running in the quickest time at lowest cost, Congel boasts that he is usually able to bring his projects from groundbreaking to completion in six to nine months, half the industry norm. Is the local bureaucracy slow with the permits? So what, dig anyway! In Pittsfield, Mass. recently, Pyramid and a subcontractor paid over \$240,000 in fines for filling in a swamp, relocating a stream, and even laying drinking water and sewage pipes in the same trench. Still, the 100-store mall opened recently to more than 120,000 shoppers over the first five days.

For all his roughshod tactics, Congel invariably leaves behind malls that enhance the local economy and are much appreciated by the townsfolk. "I declared a war on Pyramid," admits Ithaca, N.Y.'s former mayor, Edward Conley, who also took to visiting city after city in the Northeast to

fastest-growing builder of shopping malls in the Northeast. Thirteen malls are already up and 12 more are on the way in whistle-stop towns stretching from Cheektowaga, N.Y. to Kingston, Mass. Assets are nearly \$2 billion, while Congel himself is worth well over \$200 million and is surely headed for The Forbes Four Hundred.

But Congel is also on his way to becoming Public Enemy Number One with a growing number of politicians, merchants and environmentalists in the region. Why? For one, his usual pattern is to buy distressed property cheap—wetlands, floodplains, landfills. That makes environmentalists angry. Then he transforms his holdings into mammoth malls that quickly become the region's dominant retailer. And that enrages existing merchants in the area.

What's more, if he believes in a project's worth, Congel refuses to give up no matter how many opponents get on his back. In 1982 the country's largest mall builder, DeBartolo Corp., was denied permission to build in South Attleboro, Mass. on a large tract of wetlands. Pyramid then bought the 80 acres from DeBartolo on the cheap and plowed \$20 million into the battle. In June a federal appel-

late court blocked the proposed construction on environmental grounds, but Pyramid vows to keep fighting. Says Congel: "The most important thing in life is persistence."

That doggedness is now causing him image problems, to put it mildly. In Clarkstown, N.Y., where Pyramid wants to build a mall on two inactive hazardous waste landfills, environmental opposition is spreading. But fanning the flames is Corporate Property Investors, the nation's largest real estate investment trust.

The trust happens to own a mall nearby, fears the competition and has hired the Hill & Knowlton public relations firm to spread antienvironmental dirt on Pyramid. This in spite of the fact that the New York State Department of Environmental Conservation has already upgraded the site to one posing no significant health hazard. Moreover, Pyramid plans to spend millions to "cap" the landfills and treat the groundwater, which probably wouldn't happen without the firm's initiative. "We'd love to see all these sites redeveloped and returned to the tax rolls," says R.W. Groneman, a state spokesman.

Similarly, in Burlington, Vt. a socialist mayor is waving the environmental banner to rally people against

warn others about Pyramid. He now says in retrospect I have to admit Pyramid helped us rejuvenate our community by offering us competition, making the whole county a vibrant retail market."

Now Congel has embarked on his grandest project yet, to begin rebuilding a huge chunk of Syracuse itself,

targeting an 800-acre eyesore along polluted Onondaga Lake known locally as "Oil City." Congel thinks the project area, a warren of scrapyards, oil storage tanks and a waste treatment plant, can be turned into a \$1 billion center of parks, hotels, shops and marinas, increasing the city's tax base by an astonishing 50%.

Opposition is already beginning to mount. Yet, you can bet that if and when Congel finally does see his project through, no one will burn the local tycoon in effigy. "Our projects are loved and coveted once they're built," Congel says. "And if you really want to see a revolution, try tearing one down after it's up." ■

Charles Keating, Arizona's largest residential developer, has sold \$200 million of high-risk debt backed by little more than his smile. Here comes another \$300 million.

Trust me

By John H. Taylor

CHARLES H. KEATING JR., the 64-year-old chairman of Phoenix-based American Continental Corp., is walking a wobbly tightrope these days. And he's paying 9.5% to 12% on a minimum investment of \$2,000 to anyone willing to help him out. Trouble is, you have to get up on the tightrope with him.

Plenty of folks seem willing to do just that. Last year Keating began selling \$200 million in subordinated debentures of American Continental, a real estate and financial services company with \$6.4 billion in assets. The bonds were sold through 29 branches of American Continental's largest subsidiary, Lincoln Savings & Loan, based in Irvine, Calif.

Now American Continental is out flogging another \$300 million, this time through the parent company's own 17 financial services offices in Phoenix and California. American Continental says it is selling about \$500,000 worth a day.

But it takes more sophistication than the average consumer usually possesses to evaluate the risk behind Keating's latest debentures. For example, the bonds are subordinated to \$13 million in parent company debt. The prospectus states that there is no "secondary market"—meaning the buy-

er cannot readily resell them. And no brokerage firm is underwriting the debentures, meaning none has put its name behind the offering.

To a lot of unsophisticated buyers, in effect, Charles Keating is saying, "Trust me." Should you?

Since acquiring Lincoln in 1984 for

\$51 million, Keating has aggressively built the S&L by investing heavily in real estate and becoming a major real estate lender. Lincoln now accounts for 93% of American Continental's assets. The value of those assets, however, is the subject of some debate. Keating has loaded the thrift's balance sheet with speculative and illiquid investments. He poured nearly \$1 billion into long-term real estate projects, mostly in depressed markets like Arizona, Texas and Colorado. He has made nearly \$800 million in acquisition, development or construction loans on unimproved land—historically the riskiest form of real estate lending. Among Keating's other forays: futures trading (done through the parent company), LBO financing and junk bonds.

According to Sheshunoff Information Services, the widely used bank rating service, Lincoln's asset quality ranked in the bottom 33% among its S&L peers in June, while its cost of funds is in the top 20%. Historically, Lincoln's interest income has not covered its interest expenses and overhead. Instead, it relies on the

John Trotto



American Continental Chairman Charles H. Keating Jr. Taking his bondholders on a high-risk ride.

sales of securities, loans and real estate for its profits.

American Continental points out that it has never defaulted or been late on a payment to any debt holder. Wall Street, nevertheless, is unimpressed. Trading over-the-counter recently at 6%, American Continental's stock is priced 25% below book value. The stock is closely held. Keating himself owns 22%, insiders own another 33%, and the company's ESOP owns an additional 25%.

Whatever the fate of his thrift and his investors, Keating is taking care of himself and his family. He made \$3.2 million in cash, bonuses and stock options last year. The next four highest-paid officials, including Keating's son and son-in-law, averaged \$806,000 in cash compensation each. Keating and his son also sold back 517,000 shares to the company last year for nearly \$4 million.

The risk for American Continental investors, of course, is that the company's highly speculative investments will go sour. A recession or a sharp increase in interest rates could cripple Lincoln's real estate projects and increase defaults by the S&L's real estate borrowers. American Continental dismisses the possibility, citing its status as Arizona's largest residential developer. "We understand how to buy, how to develop, how to build and how to finance residential housing," says a top executive.

How risky are some of Lincoln's investments? Consider the Uplands project just west of Austin, Tex. Lincoln took over the 3,250-acre parcel in 1984 after a company headed by former Texas Governor John Connally failed to meet the conditions of its management contract. The project was designed to include 6,200 residential units, some commercial development and a golf course. At the end of 1987 the thrift had invested \$88 million in the property and carries it on its books for that amount.

But those familiar with the dreary Austin market (FORBES, Dec. 14, 1987) say it's worth far less. John Lindley, a respected Austin real estate consultant, puts the Uplands' current fair-market value in an all-cash transaction at less than \$30 million. "In my mind, it's highly questionable whether it will ever be developed," Lindley says. American Continental insists it is negotiating to sell the property and "could make a profit."

Lincoln also owns 55% of a luxury hotel opening this month in Scottsdale, Ariz.—the Phoenician, a \$266 million, 605-room resort. Keating has called it the best hotel in the world

and plans to name one of its restaurants after his wife, Mary Elaine.

American Continental officials say they'll break even with a nightly room rate of \$225 and 70% annual occupancy. Greg Nilan, a lodging expert with Pannell Kerr Forster in Phoenix, thinks the break-even rate has to be \$350 to \$400 a night at 65% occupancy. Scottsdale is overbuilt with luxury hotels. Two other hotels, with a total of nearly 1,000 rooms, have opened there in the last two years. Another 600-room luxury hotel opened in nearby Tempe. Top rate in the area last year: \$200.

Given all this uncertainty, why would anyone invest in American Continental's subordinated deben-

tures? For the promised yield, of course. At a time when insured bank CDs are averaging 7.8% for one year and 8.3% for five, the uninsured debentures offer 9.5% for one year and escalate to 12% for five years. But you have to believe that Keating can stay up on that tightrope and continue to balance American Continental's massive real estate projects, its land loans, its securities trading, its hotels.

Keating says he doesn't mind the pressure. Asked by a Tucson reporter about the possibility that the Phoenician might bomb, he said recently, "They're going to know exactly where to point the finger if that baby goes down."

So will the bondholders. ■

The Japanese government is about to bring another chunk of Nippon Telegraph & Telephone to market. Even the scaled-down offering could get a chilly reception and lead to other serious problems.

Hold the phone

By Richard Phalon

IN TOKYO THESE DAYS, for 2.2 million yen (\$16,900) you can buy a Toyota Camry, fully loaded. Or a sexy three-quarter-length black mink coat. Or a knockout set of Italian living room furniture. Or one of the 1.5 million shares of Nippon Telegraph & Telephone Corp. the government is about to sell in the third stage of its multiphased withdrawal from major-ity ownership of the huge utility.

There are signs that this time around, Japanese investors (officially, foreigners may not buy into NTT) seem to be telling their brokers they'd rather have the car, the mink or the furniture. Among the signs: the Ministry of Finance's recent decision to cut the size of the sale from the originally targeted 1.95 million to 1.5 million shares, thereby forgoing some \$8 billion in revenues.

And who can blame the investors? That 2-million-plus yen per share buys a slice of the world's largest tele-

phone company (\$91.6 billion assets), and one of its slowest-growing. Some 80% of the company's \$45.3 billion in operating revenues last fiscal year came from a basic telephone business, which even in a strong economy expanded little more than 4%. Kohji Ohboshi, senior vice president in charge of NTT's corporate strategy planning, thinks the growth rate may slip as low as "maybe 2% or less" over the next couple of years on what is modest potential. "Income and revenues," says Ohboshi candidly, "will be stagnating."

By any rational standard, the price the government is asking for this growth is bizarre. Whereas the Tokyo market as a whole is pretty expensive at 60 times trailing earnings, the third NTT tranche is coming out at around 130 times earnings. At the offering price, it will yield (get out your microscopes) two-thousandths of 1%.

True, when the stock was first taken public two years ago at 1.2 million yen per share, even NTT's feisty

AT&T's gift to the Japanese

There is nothing like the sting of competition to get a monopoly moving, however grudgingly. For years now Japan's KDD (Kokusai Denshin Denwa) has had the exclusive franchise on all overseas calls between Japan and the world outside. And for years customers have been griping about a rate structure that made calls to the U.S. several times more costly than calls from the U.S. to Japan.

There have been modest reductions, but nothing to write home about until several weeks ago, when it seemed that KDD had finally decided to bite the bullet. Television and print ads blossomed with the good news: a 28% cut across the board on all overseas calls. "Phone calls from both the U.S. and Japan are now on

the same level," was the triumphant word.

What the ads did not say was that the concessions had been forced by AT&T's new country direct operator network. It permits callers to bypass KDD and tap right into the U.S. system. KDD shares in the interconnect revenues, but a study of the company's new tariffs suggests they are still a long way from parity.

KDD does come close in one category: a 3.6-minute call dialed direct between 2 p.m. and 7 p.m. The cost: \$7.74 from Japan, \$7.67 from the U.S.

For calls at other times, however, right around the clock, KDD's charges are still higher by anywhere from 13% to 115%. Monopoly bends, but slowly.—R.P. and Hiroko Katayama

Chairman Hisashi Shinto agreed that "there is nothing logical to substantiate that price, or any other price in the stock market. It really gives me a headache." Nonetheless, investors chased the stock. As a result, those who got into the initial sale of NTT are 83% (in yen terms) ahead of the game.

On the other hand, those who got in on the second tranche last year and hung on are hurting. That issue went off at 2.55 million yen a share, briefly touched a giddy 3-million-yen high, and has since been stooging around in the 2-million-plus range.

There are hopeful signs, but they are on the distant horizon. NTT does own a lot of real estate, including more than 70 branch offices and switching stations that could be converted to general commercial use. In fact, the company has set up two affiliates to do just that. But profits are years away.

The company's bloated work force is coming down, but slowly, at the rate of some 6,500 people a year to a current total of around 290,000. Ohboshi expects that rate of attrition to continue right into 1990. But Japan's "lifetime employment" social contract—and NTT's agreement with the unions—gives the company almost no latitude to make deeper cuts faster.

There is rich promise in the mobile phone market. Japan has about 46 million cars on the road, but only 171,000 of them are tied into the NTT net. "You're talking about millions of

new lines," says Alan Bell, of Salomon Brothers' Tokyo office, "but not until they get [basic access] costs down to somewhere around the U.S. level of \$30 a month." Right now, rates are around \$1,500 to have a mobile phone installed, and a basic monthly bill is \$150.

Some of NTT's best prospects lie in the fact that revenues are increasing faster than the number of lines in place—a hint that the normally reticent Japanese are talking more than they used to. "It's this new generation," says one pleased NTT executive. "These young people even think they need a telephone at college." Ex-

pansion into higher-margin data communications is NTT's priority, but here, too, the promise won't be realized for years to come.

Japan being Japan, institutional investors will no doubt be persuaded to swallow the issue. But its stickiness is not a good omen for the additional NTT stock—and that of government-owned railways—the MOF intends to put on the block over the next several years. Further, if the stock gets a chilly reception, that could lead to a chain reaction. By hurting prospects for revenues from the sale of other government assets, the NTT sale would in turn hurt chances for the tax reform bill Prime

Minister Naboru Takeshita is trying to ram through the Diet. And that could restrain growth in Japan and make it more difficult to get U.S.-Japan trade into better balance.

Unfortunately, government regulation of NTT makes a chilly reception likely. As a quasi-public corporation, NTT is also constrained in the ways it can cut rates and build volume. Competitive logic would dictate higher prices for local service and much lower prices for long distance. But that would save business users money, at the expense of consumers—a political nonstarter. "We are required to treat everyone equally," says Ohboshi sadly.

Who could blame Japanese investors if they declined to pay 130 times earnings for a company that is, in effect, forced to fight with one hand tied behind its back? ■



NTT client

More gab, lower margins.

American Family shipped an unpopular product overseas and became a top insurer in Japan. Can it now duplicate that success here in the U.S.?

Bringing American Family home

By Jill Andresky

BY SELLING cancer insurance, American Family Corp., the \$5-billion-plus (assets) Georgia-based insurer, has carved out a valuable niche for itself in Japan's massive, well-entrenched insurance industry. The product is controversial in the U.S. (banned in four states) because consumer advocates argue that disease-specific policies carry high price tags and low payout ratios. But in Japan sales of cancer coverage are big business, generating \$1.3 billion in revenues last year to the U.S.-based company.

American Family likes to argue that under U.S. tax and accounting rules, those revenues would in fact have produced a healthy profit. But because the money was earned in Japan, Japanese rules apply. Those rules are stricter than their U.S. counterparts. So, even after 14 years in the business, American Family by the end of last year still had not accumulated enough Japanese-derived taxable earnings to meet Ministry of Finance requirements that would permit earnings repatriation to U.S. shareholders.

In recent years American Family's problems have worsened as its Japanese operations have grown by leaps and bounds, while its U.S. business has stagnated. Today some 72% of American Family's revenues are earned in Japan, with nearly all the profits that the company can actually use in the U.S. being derived from its much smaller U.S. operation alone. Result: a 1987 revenue gain of

35%, to \$1.9 billion, reported to U.S. shareholders, but with less than 2% of that amount representing earnings actually available in the U.S. As a consequence, the company currently has about \$225 million in cash and short-term investments in Japan, but only \$30 million available for investment in the U.S.

In addition, whenever the yen drops, translated balance-sheet re-



*The new management team at American Family
Looking for ways to reduce their yen exposure.*

sults in the U.S. suffer. Not surprisingly, the company, which has in the past traded at a premium to the accident and health insurance industry, is now trading only at par.

Last January FORBES named John Amos the insurance industry's most innovative chief executive because of his success in penetrating the Japanese market. But with Amos himself tragically grappling with lung cancer, a new management team must answer a tough question: Can the company that has flourished under the wing of Japan's Ministry of Finance come up with a popular product for

the free-wheeling American market and thereby reduce its yen exposure?

Throughout his career, Amos was a master at figuring the ins and outs of the Japanese market as well as cultivating relations with the all-powerful Japanese governmental bureaucracy. American Family now sells its policies to one of every six Japanese families and has become the fifth-largest seller of new life insurance policies in the country.

But American Family Life has been much less successful in dealing with the U.S. market, where profits depend less on who you know in government than on the quality and cost of your products. "Domestic operations have always been very disappointing," reports Vita Marino, a vice president at Firemark Inc., a New Jersey-based insurance industry research firm. "You could blame it on bad press about cancer insurance, but I would say that they just never had a very good product to sell in the U.S."

The task of bringing American Family home has fallen to Daniel Amos, John Amos' 37-year-old nephew and hand-picked successor. Danny, the new deputy chief executive, has already begun developing new

specialty insurance products aimed at the American consumer. The most promising, called an "advance life" policy, allows insured clients to cash in 25% of their death benefits (leaving 75% for beneficiaries) upon being diagnosed as suffering from a heart attack, internal cancer or a stroke. The policy is being test-marketed in 8 to 10 states and has already been approved in some 35 others.

But American Family cannot afford to forget about the Japanese market. Says Danny Amos, "We hired Nomura Research to see what our customers wanted, and what they wanted most was higher

hospital coverage." So American Family plans to double the size of its policy (and premiums) while also offering extra riders.

But the company's goal of a better-balanced Japan-to-U.S. sales split is far off, and expanding the U.S. business by acquisition may be difficult, considering the company's tight cash position. But John Amos is not worried. "We've learned from the Japanese. They have the patience of Job. They move forward three steps, then wait. Then they move forward three steps again." By such small steps are long marches completed. ■

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Institutional investors have found yet another sure-fire way to beat the market.

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Mellon Capital's William Fouse

For all the high tech, the point is still to try to divine the market.

Ed Kashi



By Laura Jereski

MONEY MANAGERS, pension funds and other institutional investors are constantly searching for the simple, mechanical formula that will beat the market. They flock from one to another, creating fads out of the aberrations that did indeed beat the market—last time around.

And here we go again. Remember how portfolio insurance was supposed to preserve all those bull market gains? This year's hottest craze, tactical asset allocation, will likely work just as well—which is to say, not when you need it most. The idea: use computer models to switch to the best-performing asset, or at least switch out of the riskiest investment,

in time to avoid a crash, often by using stock index futures instead of stocks. Think of it as market timing gone high tech.

"Market timing got a lot of bad press, so you change the name," says Bruce Poliquin, marketing director of New York-based market-timer Avatar. Since the crash, Avatar has gained \$500 million in assets under management, an increase of 50%. And it's not alone. Investors have thrown nearly \$40 billion at tactical asset allocators, almost a third of that in the past year, according to trade publication *Pensions & Investment Age*.

Why all the excitement? Because the leading tactical allocation managers—Wells Fargo, Mellon Capital and Boston Co., among others—were largely out of stocks by the time the

market hit the skids. Thanks to returns well above the paltry 5.3% for the Standard & Poor's 500, they are this year's heroes. Never mind that some, like Wells and Mellon, had been so bearish for so long that nothing short of the crash would have made their day.

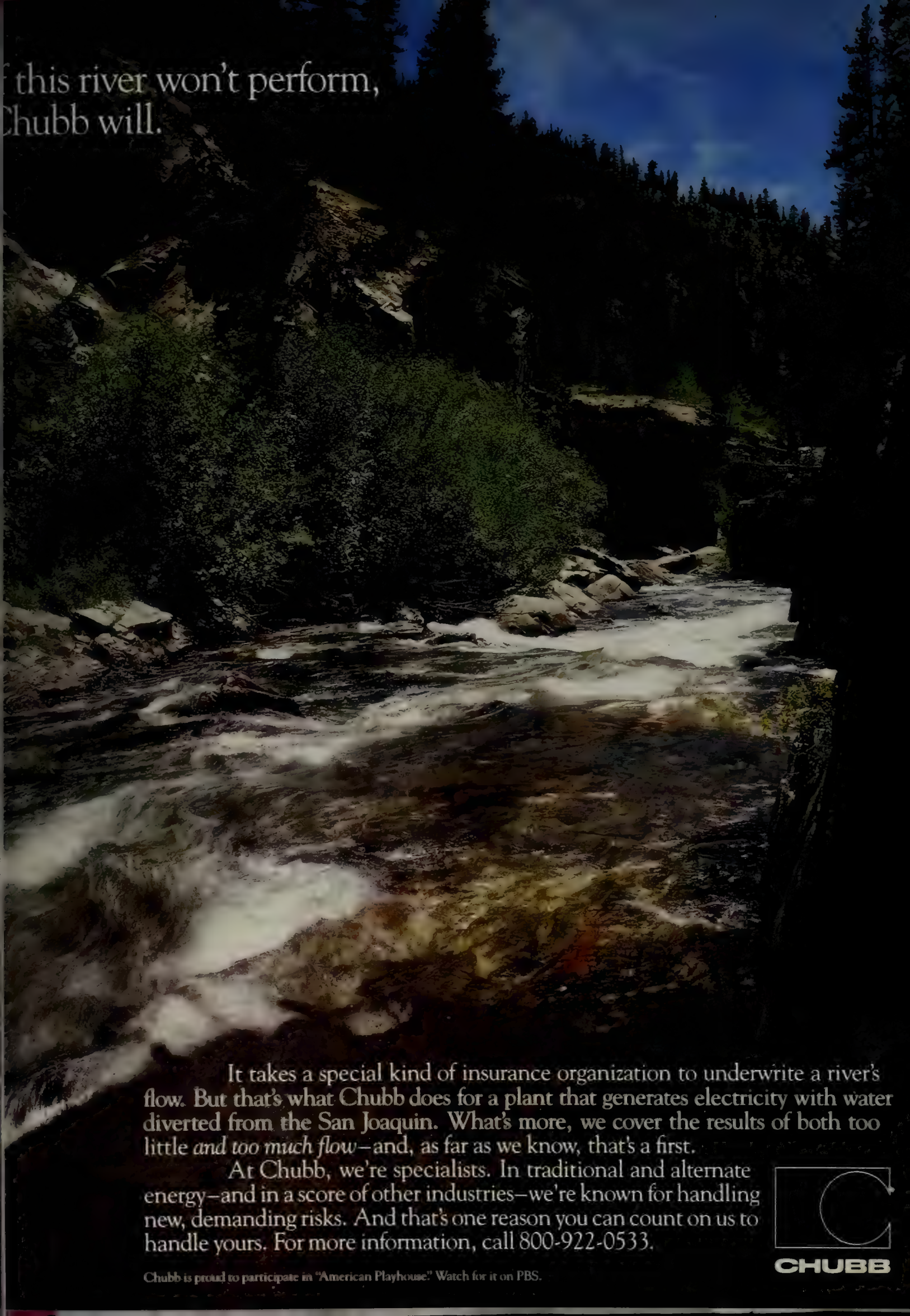
Part of the appeal here, of course, is that because computer programs drive the investment decision, the decision seems more scientific to some institutions. It's the old market technicians' argument: A mathematical formula on a microchip can deal with the stock market coolly and objectively, uncluttered by the human foibles that plague the mere informed evaluation of a shrewd investment manager.

Sometimes, though, having a computer chip for a money manager can produce unexpectedly fortuitous results. Last Oct. 20, for example, Wells' tactical asset allocation model sounded a screaming buy, and its managers promptly loaded up on stock index futures. As it happened, the disastrous day before, also under orders from the computer, Wells had sold some \$1.6 billion of those very futures from its portfolio-insured funds. The result: Wells managed to double up on transaction fees from all that business going both ways. Today Wells' asset allocator runs some \$9 billion, almost twice what there was a year ago.

The man who started tactical asset allocation is William Fouse, the affable 60-year-old chairman of Mellon Capital. Fouse has been talking it up since the early Seventies, when he joined Wells Fargo, one of the first managers to develop quantitative investment techniques. Fouse built the first market index fund in 1971 and the following year set up the tactical asset allocation model now at the core of both Wells and Mellon.

For all the high-tech atmospherics, though, the point is still to try to divine the market. Fouse relies on a so-called dividend discount model that compares analysts' future earnings estimates with the long bond rate. This is designed to tell you the expected return from stocks compared with bonds, and therefore where to put your money. Others plug in economic variables, like the money supply and inflationary expectations. Still others feed their computers with data about investor "sentiment."

But does it work? In a word, no. Tactical asset allocators, as tracked by consultants Callan Associates, do no better overall than equity managers. Even so sharp a manager as Mel-



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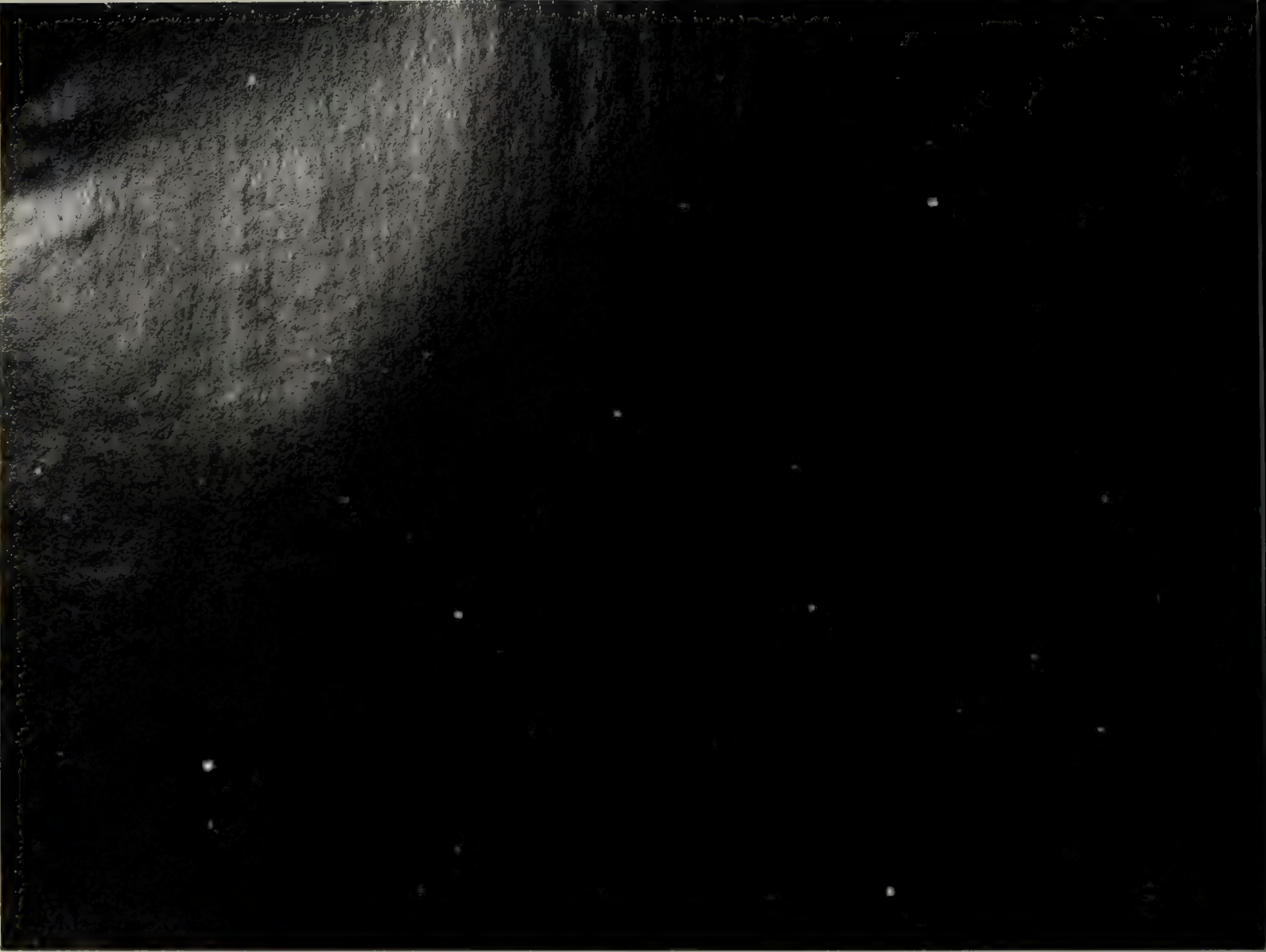
It takes a special kind of insurance organization to underwrite a river's flow. But that's what Chubb does for a plant that generates electricity with water diverted from the San Joaquin. What's more, we cover the results of both too little *and* too much flow—and, as far as we know, that's a first.

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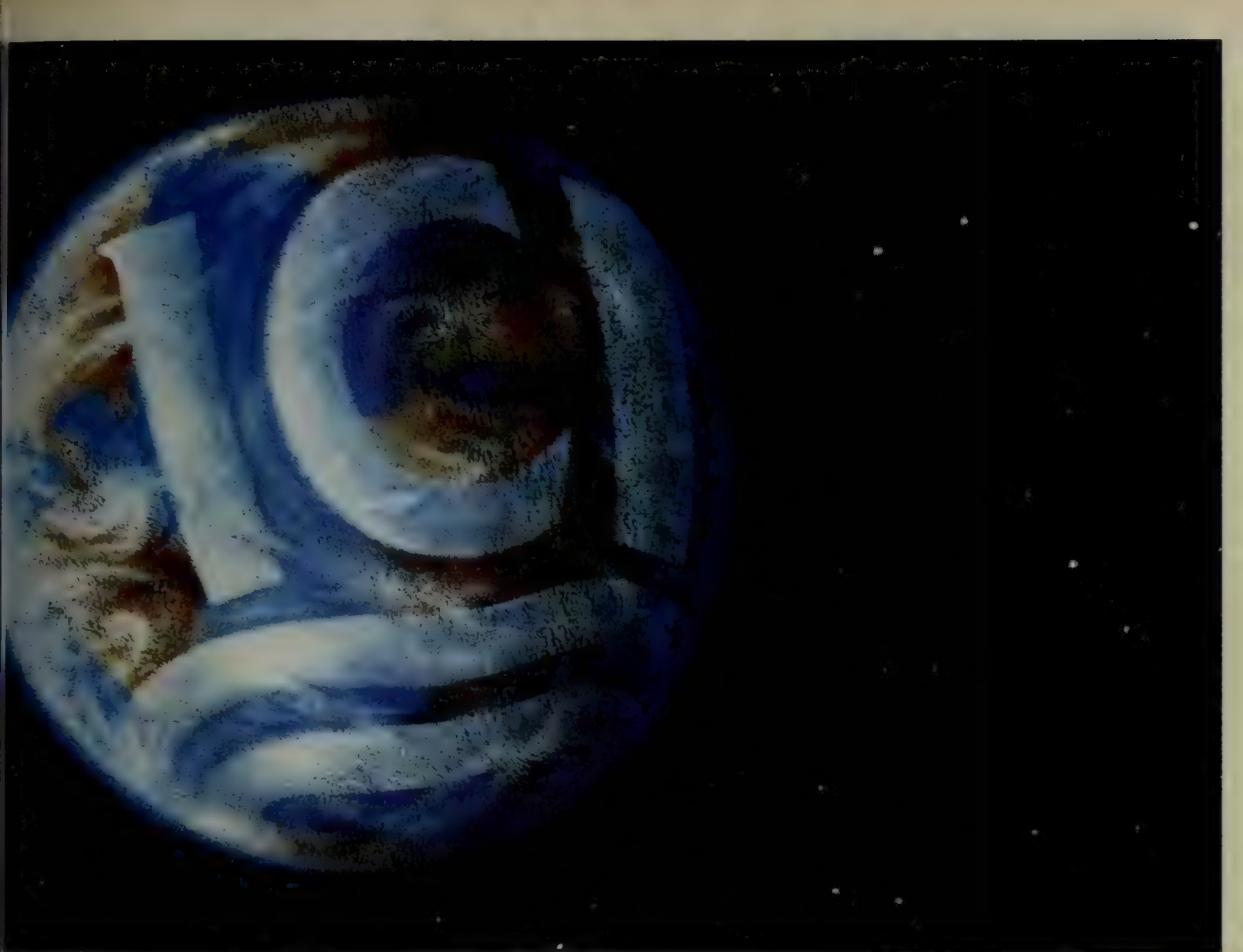
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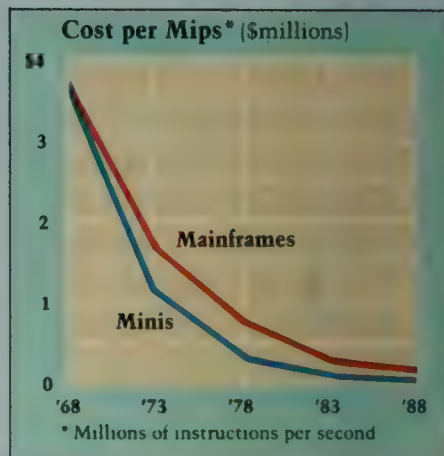
Building a beta mousetrap

Quant fever among money managers—an affliction whose primary symptom is the propensity to mistake computer power for brain power—did not begin with portfolio insurance several years ago. Investors have always looked for magic market-beating formulas, and cheap computer power has been making it a lot easier for them to indulge their taste for microchip fantasies. Too bad reality is so rude. Consider a few of the more widely heralded products of this indulgence:

Back in the early Seventies, when computers were expensive—more than \$3 million for computing power on minicomputers then would cost some \$30,000 today—Wall Street discovered a fairly simple gimmick: beta, which measures a stock's volatility in relation to the rest of the market. The modern portfolio theory built around beta was supposedly going to optimize the performance of a portfolio for any given level of risk.

Learn to live with risk—that is what *Institutional Investor*, the widely read trade journal, heralded in 1971, and institutional money managers rushed to do so. By the time the trade magazine came around to declaring beta dead some nine years later, institutions had poured nearly \$20 billion into MPT managers' hands.

The problem? The coldly mathematical, systematic solution simply couldn't live up to the markets' rock 'n' roll. At best, beta could be estimated for a little while. After all, what computerized beta for-



mulation could have predicted, say, the popularity burst of Reeboks, or their sudden fade?

Never mind. Infected by the apparent possibility of quantifying the market and reducing it to predictability, some quant-feverish money men quickly moved past beta to Arbitrage Pricing Theory, which included certain economic data thought likely to affect the market, as well as beta. Wouldn't more numbers make a better model? Of course not.

By 1982, with the cost of computing coming down fast, the advent of stock index futures opened up whole new possibilities for modeling. In its September issue that year, *Institutional Investor* profiled three young guys with a neat system that promised "foolproof market timing." Their names? Leland, O'Brien and Rubinstein. They would call it portfolio insurance. By now a bit feverish itself, *Institutional Investor* called it a miracle. Some miracle.—L.J.

lon's Fouse, whose annual average return of 18.9% over the past ten years far outpaced the S&P 500's 16.3% annual average, stumbled badly in the year ended June 30, 1987. Fouse scored a 6.8% return, versus the S&P 500's 25.2%.

And most managers have nowhere near his record for running real money, as opposed to running numbers. Most of the hot records come from following "the trend is your friend" strategy in a bull market, explains William Madden of pension consultants SEI, which recently completed a study of asset allocators. Well, you don't need a weatherman, or even a computer, to know which way the wind blows, to paraphrase Bob Dylan's song.

Indeed, the timers haven't done so well this year, in a stock market that has been trendless but volatile. Only half have beaten the market's 12.7% return. For contrast, money managers in general have scored 13.1%.

But, say the asset allocators, this time it's different. They can beat the odds by using stock index futures instead of just stocks. That not only cuts transaction costs, which rack up fast when you switch fast and furiously, but are also easier to swing in and out of than the stock market. Some \$20 billion, or half, of the funds in tactical asset allocation use futures as part of the strategy.

The problem is that using futures which have about one-twentieth the transaction cost of the stock market



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index, doesn't improve the odds of making moves right. "You still have to be right about 70% of the time in forecasting bull markets and 70% of the time in forecasting bear markets to beat the naive strategy of buying and holding stocks," says Richard Woodward, a professor at the University of Calgary. That's a lot to ask, when most managers can't even guess

right half the time.

Why do they need to be right 70% of the time? Because stocks outperform other assets by so much that the timers' results get whacked when they miss the turn into the bull market.

So is this latest twist on computerized market timing consistently successful enough to keep the institu-

tions from rushing the exit if the markets break and the models can't run smoothly? No way. Comments James M. Stone, former chairman of the Commodity Futures Trading Commission who voted against allowing stock index futures but was outnumbered, "We all do something different when the sun shines. But we all go inside when it rains." ■

Whoever wins the battle for Kroger supermarkets, A&P stores can't lose, says Germany's fast-moving grocery store king Erivan Haub in a rare interview.

The merchant of Mülheim



Erivan Haub, sole proprietor of Germany's Tengelmann Group
"With just one person at the top, we can move very quickly."

By Peter Fuhrman

EVEN AS THE CONTEST rages for control of supermarket group Kroger Co., Erivan Haub is happily counting his spoils. Haub, 56, is sole proprietor of the Tengelmann Group, the West German supermarket giant that owns 53% of Great Atlantic & Pacific Tea Co. With sales of \$9.5 billion, A&P is America's fourth-largest supermarket chain. According to Haub, it can't lose no matter who wins Kroger.

"Through leveraged buyouts and takeovers, A&P's competitors are becoming loaded with debt," explains Haub, from his office alongside the Tengelmann Group's 85-year-old red-brick chocolate factory in Mülheim, a featureless town in the Ruhr conurbation. "They will pass along the cost of servicing this debt by raising prices. It's hard to do this and be successful in the supermarket business."

When he sits for an interview, which is seldom, Erivan Haub is a man worth listening to about the grocery business. Immediately after the war, in 1946, Tengelmann was down to just 80 stores. Today the group has over 3,500 stores in Germany, and 300 more in Austria and the Netherlands. With consolidated annual sales rising 8% to \$17.4 billion in fiscal 1988 (ended June 30), the Tengelmann Group is Europe's largest supermarket chain. With little debt and well-integrated warehouse and inventory control systems, Tengelmann's pretax margins are higher than the industry average in both Germany and the U.S. In fiscal 1988, Haub revealed, Tengelmann Group earned \$225 million, pretax. Valued at the pretax multiple offered to Kroger Co. shareholders by Kohlberg Kravis Roberts & Co., Tengelmann Group, 100% owned by Haub, is worth \$3.2 billion.

After World War II, Haub's uncle was running the business and brought in young Haub early. "I was the sole heir," Haub recalls. "There were never any questions about whether or not I would go into the supermarket business." As part of his training, the 20-year-old Haub went to the U.S. in

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1952 for a three-year apprenticeship at two supermarkets. He sent his uncle detailed drawings of the U.S.' new self-service supermarket stores, still a rarity in Germany. Soon after, Tengelmänn opened its first self-service store in Munich and proceeded to convert all the Tengelmänn stores to self-service. Even today, many Tengelmänn stores are scaled-down replicas of a typical suburban U.S. supermarket, down to bright banners in the window advertising weekly specials.

After his uncle's death in 1969, Haub became chairman of Tengelmänn, and began acquiring. In 1971 he spent DM100 million to buy Kaiser's Kaffee-Geschäft, a nearly bankrupt supermarket chain with 500 stores in Germany. Haub quickly closed down Kaiser's unprofitable downtown grocery stores and replaced them with Plus Stores, which sell deeply discounted food and household goods in bare-bones surroundings. Tengelmänn now has 2,500 Plus Stores, the most profitable part of the company in Germany.

In 1979, Haub returned to the U.S., this time to buy control of A&P. He spent \$125 million over three years to buy a 53% stake in the chain. At the time, A&P was losing money and in deep trouble. "There were days and weeks where it looked like A&P would go into Chapter 11. I never would have been able to persuade public shareholders to accept the risky investment in A&P. Instead, it was all done with a few phone calls. I was able to do it without even any of the German banks knowing." At A&P's current share price, Haub's stake is worth \$870 million.

Haub does not run A&P. Company chairman James Wood does (FORBES, May 30). Haub does, however, set annual targets for sales and return on investment while hunting around for acquisitions. In 1986 A&P spent \$250 million to acquire two of its northeastern competitors: Shopwell/Food Emporium and Waldbaum's. Haub insists that no effort will be made to merge the stores. "If a customer feels badly served by A&P, he can always shop instead at Waldbaum's. It's like an Arabian bazaar. There are many different shops, but all are owned by the same family."

Profits are rising at A&P from 1987's record levels, with pretax margins fattening by 25% this year to 5.3%, better than all but one of A&P's major competitors. Only Albertson's is doing better. "Margins are moving in the right direction," says Haub. "We've been helped by the decline in commodity prices. Coffee, cocoa and

sugar have all been falling. Not all the savings has to be given back immediately to the customer."

Haub is not nearly so ebullient when discussing Tengelmänn's prospects in Germany, where antitrust laws prevent him from pursuing further acquisitions. Haub is also hemmed in by Germany's antiquated *Ladenschlussgesetz*, the law that forces shops to close no later than 6:30 p.m. on weeknights.

Reflecting Tengelmänn's prospects, Haub spends less than half the year in Germany. He lives mostly in Toronto, but keeps a house on Puget Sound, near Tacoma, Wash. as well. Earlier this year he opened negotiations to buy \$4.3 billion (sales) Stop & Shop Cos., but lost out to Kohlberg Kravis. "I am hungry for expansion," says Haub. "The capital and the lines of credit are ready. Better, with just one person at the top, we can move very quickly."

"There is a big cost saving in having a board with only one member," adds sole board member Haub, whose three grown sons, all born in America, have not yet joined Tengelmänn. "There are no dividend payments to be made, no remuneration for a large board, and lower expenses. This money can all be plowed back into the business."

That hoary *Ladenschlussgesetz* law and Haub's residential preferences are reminders of how German merchants, and food merchants in particular, have long suffered from a low social standing. Haub's patrician great-grandfather, Wilhelm Schmitz, was unwilling to tarnish his own name when he opened his first grocery store in 1893. Instead, he named the store after one of his salesmen, Emil Tengelmänn. "One reason I enjoy working in the U.S.," says Haub, "is that the supermarket business is much more highly thought of there." ■

"Sewing is almost dead," laments a longtime home economics teacher. So how does House of Fabrics, Inc. spin record sales and profits?

A stitch in time

By Marc Beauchamp

COMMON SENSE SUGGESTS the fabric retailing business should be in tatters. Working women have little time or energy to sew clothes. Besides, it's hardly necessary with stores bursting with cheap imported ready-to-wear, including petite and large sizes. And fewer women know how to sew. This once indispensable skill is hardly taught anymore in elementary and high schools as a result of flagging interest and budget cuts.

"Sewing is almost dead," laments Ann Lee Schreiber, who has taught home economics—mainly sewing and cooking—for more than 20 years in the Brookline public school system

west of Boston. "We've gotten away from stitching and stirring in favor of drug education, sex education and consumerism."

No wonder the industry's numbers are grim. Fabric retailing, a \$3.5 billion business, hasn't grown in 12 years. Adjusted for inflation, it has shrunk. Meanwhile, the number of fabric retail outlets has dropped, from 40,000 to around 10,000, as department stores and major retailers like J.C. Penney and Montgomery Ward have folded their low-volume home fabric departments.

Barney Sofro, however, isn't wringing his hands. Sofro, 46, is chairman of \$322 million (1988 sales) House of Fabrics, Inc., founded in 1946 by Sofro's father and uncle and now the



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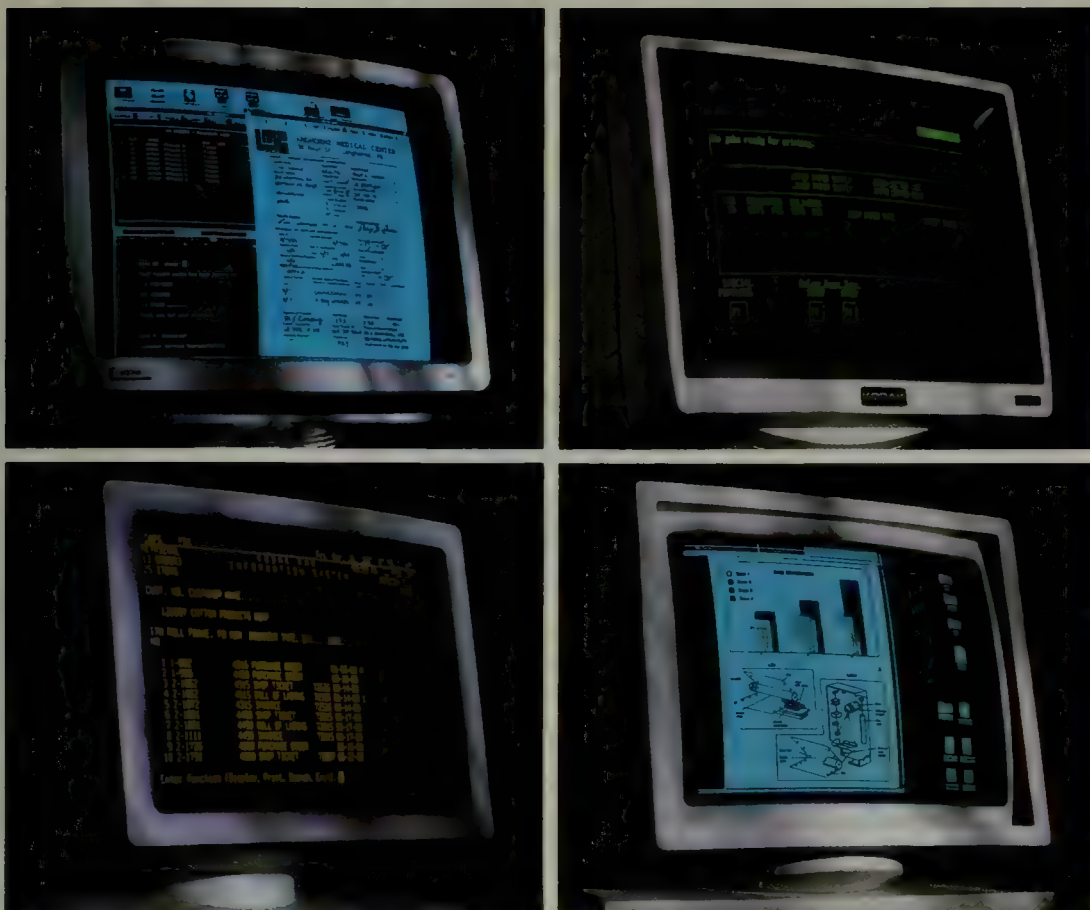
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House of Fabrics' Gary Larkins and Barney Sofro

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Prospering in a shrinking market by changing with their customers.

nation's largest home sewing and craft retailer, with 662 stores in 43 states. Based in Sherman Oaks, a Los Angeles suburb, the company has increased its sales every year since it went public in 1965. Profits for the year ending Jan. 31, 1989 are expected to top 1985's record \$11.3 million. House of Fabrics is one of seven large chains—others include \$298 million (sales) Hancock Fabrics and \$267 million (sales) Fabri-Centers of America—that now control about 40% of the market. Their competition: some 7,500 local independents and discount chains like Zayre Corp. and Wal-Mart Stores.

How has House of Fabrics prospered in a shrinking market? By changing with its customers. Ten years ago 70% of its sales came from fabric. That accounts for only 47% today as the company has expanded into crafts such as knitting and crocheting and kitschy do-it-yourself projects like stuffed animals,

hearts and decorative wreaths. Crafts now account for 11% of sales. The remainder comes from "notions"—garment patterns, buttons, thread, ribbons and the like—and from sewing machines.

Ten years ago nearly all fabric sold was used to make garments. Today almost half of it is used in home decoration—to make lampshades or drapes or to upholster sofas and chairs. Quilted fabrics printed with Mickey Mouse, the Cookie Monster, Popeye and Olive Oyl are stitched into baby blankets or bedspreads. Sofro also cashes in on holidays. For Christmas he stocks bolts of red and green material and fabric printed with Santas or Biblical scenes. Around Halloween he moves a lot of orange, black and white cloth (along with masks and makeup).

Which is not to say he has given up on the woman who wants to sew her own blouse, skirt or suit. Fondling a bolt of 100% wool fabric in the com-

pany's Santa Monica, Calif. store, he says, "We're an alternative to expensive, poorly made ready-to-wear." To attract and keep that woman (surveys suggest she's typically between 35 and 55 years old, upper income, educated, with children between 6 and 17 years old and employed part- or full-time), Sofro has to stock 8,000 bolts of cloth—from wool, rayon challises and 100% cottons for suits and skirts to metallic brocades for formal wear.

Inventory, which in the fabric business turns over only 2.5 to 3 times a year, is the main challenge. "Nothing has a worse inventory turn than our business, so we can't make mistakes," says the company's 45-year-old chief executive, Gary Larkins, a former Big Eight accountant. To reduce the chance of bad buys, fabrics are now selected by a seven-person committee that includes four women. Only two years ago that task was handled by the company's buyers, all but one of them male. "It seems so obvious," says Larkins, "I don't know why we didn't do it before."

To keep enough stock, in sufficient variety, on hand, Sofro embarked in 1984 on a seven-year makeover of the company, moving from 4,400-square-foot stores in shopping malls to 12,000-square-foot freestanding "super stores." The changeover appears to be working: Super stores will account for 42% of the company's outlets this year but 51% of expected sales and 58% of operating profits.

Despite good earnings prospects, House of Fabrics—as well as the rest of the fabric retail industry—has been largely overlooked on Wall Street. House of Fabrics, recently 17, trades at 11 times trailing earnings and only 1.2 times book value. Sofro and other insiders control 14.5% of the company's 6.6 million shares. He professes to be unconcerned about a takeover, however. The company's only major property is its 72,000-square-foot Sherman Oaks headquarters; all the stores are leased.

Still, Sofro knows he's got to get more young women interested in sewing. Thus he is starting in-store sewing classes. He also believes that the next recession could herald a resurgence in home sewing (the industry has traditionally done well in economic hard times).

Sofro says that the shakeout of the past 12 tough years has now created a supply-demand balance in the fabric retail business. "The fabric business is very much alive and well," Sofro declares. "It's been on the scene for thousands of years, and it will be around forever." ■

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NETWORKING

McDonald's didn't get to be ichiban by hiding in the kitchen. The severity of its price initiative is showing the competition what it takes to be number one.

Japan's Great Burger War

By Richard Phalon

WHEN HISTORIANS BEGIN to put together the origins of Japan's Great Hamburger War—McDonald's versus All Comers—they may well fix the flash point as early as January of this year. That was when McDonald's (Japan), 50% owned by McDonald's Corp., dropped the "Thank You Setto" on the competition.

The setto (combination deal) seemed guileless enough. It was billed as a return for the customer loyalty that has made McDonald's the biggest (\$1.1 billion sales) and most profitable purveyor of "hambagaa" in Japan. For a bargain 390 yen (about \$3) McDonald's began practically giving away a packet of goodies (burger, small portion of french fries and small soft drink), which, if purchased individually, would have cost 540 yen (\$4.15).

While a projected 12% increase in sales for this year suggests that customers viewed the heavily promoted package (and other selective price cuts) as a welcome grace note, the competition thought it smelled suspiciously like discounting. The fat, so to speak, was in the fire and Japan's huge \$2.7 billion franchised burger business hasn't been the same since.

Scout one of the major sectors of the Great Burger War—Tokyo's Shibuya Center, a showcase 30 feet wide and two football fields long that curls through a major shopping center and night town. Over a good weekend the street seethes with an endless weave of maybe a half-million of the free-spirited young people who are the franchisors prime market.

East ten fast food outlets compete in the alley, and signs of the response to McDonald's winter offen-

sive are everywhere. The Korean-owned Lotteria chain (see following story), number two in the trade, has cut a 590-yen (\$4.50) basic value set (chicken burger with lettuce, small portion of fries and a medium-size soft drink) to 380 yen (\$2.90). The windows of Morinaga Confectionery Co.'s Love store down the block coo seductively of a 620-yen package (Teriyaki burger, large fries and a small drink) marked down to 550 yen (\$4.25). Suntory's First Kitchen outlet across the street touts a 350-yen (\$2.10) Bacon Egg Burger special ("Bacon Gourmet's Set") in what looks like a low-end knockoff of McDonald's best-selling Egg McMuffin.

Did the Great Hamburger War, like so many conflicts, erupt out of miscalculation? It is possible that McDonald's intended its Thank You Setto as nothing more than a bit of dull-winter-season ballyhoo. There's no doubt whatever, though, that it has escalated into a bloodletting that could seriously puncture everyone's profit margins.

"It's a real war," says Kazuhiro Kobayashi, a marketing man at MOS Food Services, Japan's third-ranked and most aggressive burger chain. And the war is likely to continue raging with a ferocity that may drive the weakest of Japan's 20 burger chains out of the game.

All of the elements that have made burgers in particular and fast food in general such a good business are still in place. Rising personal incomes, more leisure, more women in the work force and the demographic push of a second baby boom all mean more eating out.

There are limits, though, to the number of hamburgers that even the omnivorous Japanese stomach can absorb. Novelty items like frozen yogurt



and Domino's scooter-delivered pizzas are pinching off more of the fast-food dollar. And while older, established outlets like Kentucky Fried Chicken and Mr. Donuts are still racking up brisker double-digit growth, McDonald's is clearly settling into mature middle age. "It's far less than in the beginning," concedes a spokesman.

Thus the primary thrust of McDonald's winter offensive—discounting—has to be read as one of the classic signs of a maturing market. It also has to be read as an effort to hold market share against the inroads of MOS (for Morning, Ocean and Sun) Foods, which, thanks to an all-out franchis-



McDonald's franchise in Tokyo

Pamela Fernick

A heavy yen lightened the cost of mountains of imported beef and Idaho potatoes.

ing drive, now has more stores in place than McDonald's (727 vs. 620).

The MOS outlets tend to be spotted in suburban locations—a strategy dictated until fairly recently by a shortage of capital. McDonald's big outlets, most of them spudded into prime downtown locations well before a speculative boom in real estate raised the cost of entry to nosebleed levels, generate on average about \$1.7 million in sales.

That is four times the average MOS logged last year, but the intensity of the smaller company's saturation campaign is pecking away at McDonald's position as *ichiban*, or number one. Three years ago MOS' sales were

less than 14% of McDonald's. They are now 30% and still growing. They are growing because MOS, founded 17 years ago by three former stockbrokers, has shrewdly exploited a market niche. Its shtick: burgers that are tailored to the Japanese taste, a clear choice over McDonald's distinctly American style. One of MOS' best sellers is the "rice burger." No bread, but a spicy mixture of pork and beef sandwiched between the kind of densely packed layers of rice that are balm to the Japanese soul.

McDonald's, of course, is itself no slouch in dreaming up new products that are essential to growth, and the severity of its winter initiative shows

that middle age is by no means synonymous with complacency.

As to profit margins, they are off by about the thickness of a 280-yen (\$2.15) burger—from 6.7% on sales of 130.4 billion yen (\$1 billion) two years ago to around 6.5% on this year's estimated sales of 160.9 billion yen (\$1.2 billion). There is a lot of generalship hidden in those numbers. McDonald's began discounting at a time when the heavy yen made a significant dent in the cost of the mountains of beef and Idaho potatoes it imports from the U.S. A lighter yen could hurt. For now, though, the "Thank You Setto" looks like a successful holding action, at the least. ■



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The New Generation of
OLDSMOBILE

The personal fortune of Shin Kyuk-ho, alias Takeo Shigemitsu, already exceeds \$8 billion. And he's just beginning.

"I think about business all day long"



Shin Kyuk-ho, also known as Takeo Shigemitsu, says he will "remember me by Lotte World."

By Andrew Tanzer

OF ALL THE TALES of self-made Asian billionaires, the story of Takeo Shigemitsu is surely one of the most intriguing. Born Shin Kyuk-ho in Ulsan, South Korea, Shigemitsu built a billion-dollar confectionery empire in Japan after immigrating there during World War II. In the 1960s Shigemitsu, who is still a Korean citizen, began investing in South Korea and eventually created another billion-dollar conglomerate. All told, Shigemitsu's net worth tops \$8 billion and is rising rapidly.

In Japan, Shigemitsu's 19-company, \$2 billion (1987 sales), privately owned Lotte Group includes fast foods, a delicatessen chain, a professional baseball team and vast real estate holdings.

Lotte is Japan's biggest and most profitable confectionery company, producing candy, cookies, snacks and ice cream. It also controls over 70% of the \$500 million chewing gum market. Shigemitsu, 65, owns memberships in over 300 Japanese golf courses—no small asset in a country where membership in a top-ranked club can trade for over \$2 million.

In Korea, the 24-company (\$3 billion sales), mostly private, Lotte Group consists of hotels, department stores, confectioneries, processed meat, fast foods, petrochemicals, aluminum, construction, trading, banking and a professional baseball team. Among other things, Lotte Korea controls 60% of the chewing gum market, bottles Pepsi, distributes Fuji film and is the monopoly exporter of Korean red ginseng tea. The Group is currently building the mammoth \$1 billion Lotte World, which will open later this year. This project includes the world's largest indoor theme park, two hotel towers and one of Asia's largest department stores.

Shigemitsu didn't always think so big. In a rare interview, the reclu-

sive and slightly shadowy tycoon recently provided some details of the early years. **FORBES** met with the stern, slender multibillionaire in his suite of rooms in the massive Hotel Lotte in downtown Seoul. Shigemitsu's office is decorated with Italian rococo furniture. A go board and steel safe sit in the corner. Shigemitsu, an accomplished go player, usually plays by himself.

The eldest of ten children, Shigemitsu moved to Tokyo in 1943 and studied at Waseda technical high school while working as a milk delivery boy. An aspiring novelist, he decided to study engineering instead of literature because it was a draft dodge during the war. Shigemitsu was something of a romantic: The name Lotte was adapted from Charlotte, the heroine in Goethe's *The Sorrows of Young Werther*. His first dreams were not of business empires. "I despised those who made money," he told **FORBES**.

But even before the war ended he had set up his first venture, a cutting oil business. The operation was destroyed in a U.S. bombing raid. After the war Shigemitsu began making hair cream and soap. In 1948 he entered the chewing gum business.

"All consumer products were scarce," he recalls. "U.S. GIs were giving out gum. I thought it would be a hit product."

How Lotte, the youngest of Japan's five big confectionery companies, gained dominance in the chewing gum market is a miraculous tale all by itself. Despite the centuries-old animosity between Korea and Japan, Shigemitsu maintains that he had little trouble doing business in Japan. "Japanese have a sense of supremacy over other peoples," he says, "but I didn't encounter any difficulty in doing business."

As a practical matter, moreover, consider that hundreds of Japanese gum manufacturers were in the post-war market. But Lotte was the first to import chicle, a natural base used for gum, while competitors were using a synthetic base. Lotte officials admit that during the U.S. occupation the company acquired chicle, sugar and other ingredients on the black market. "I thought the only way to win was to make the best quality," explains Shigemitsu.

Lotte also worked on its retail network, convincing shopkeepers to give its product good display. The company was a pioneer in radio advertising, labeling its gum "lover of the mouth" in a highly successful campaign in the Fifties.

For Shigemitsu, a terse and reserved

man, success beget success: "When gum became the market leader and I couldn't expand any more, I went into chocolate. My principle is once I make one item second to none, I move on to another."

Shigemitsu eventually added a cornucopia of junk foods and other cash-generating, low-investment consumer products. He put large chunks of his confectionery profits into Tokyo real estate, buying, for instance, a 2.2-million-square-foot piece of reclaimed land in the 1960s, near the current site of Tokyo Disneyland.

Shigemitsu returned to South Korea in 1967 and set up a confectionery company. "I wanted to contribute my experience in Japan to Korea's economy," he says. In the 1970s the junk food king built Seoul's biggest hotel and fanciest department store and introduced fast foods to the country. He acquired aluminum, petrochemical, construction and beverage companies and shares in the Bank of Pusan.

He now commutes between Tokyo and Seoul. "Sometimes when I'm in Korea, I forget that I'm not in Japan," he jokes.

Business associates are amazed at his command of numbers, despite the fact that he seldom takes notes. "As a businessman, one should remember the key numbers," Shigemitsu explains. "I think about business all day long. Sometimes I forget my telephone number, though."

Shigemitsu's head for figures will be severely tested by his colossal Lotte World project. A sort of indoor Disneyland near the Olympic stadium in suburban Seoul, Lotte World will house a 20-acre, four-story high-tech theme park covered by one of the world's largest glass domes. The fantasyland, designed by Battaglia, Inc. of Irvine, Calif., will include hot air balloons, fiber-optic fireworks and waterfalls. The indoor park will be attached by monorail to an outdoor theme park set in the middle of a man-made lake.

Lotte expects the theme park to attract 10 million visitors a year. Add in the shopping centers, hotels, indoor golf course, sports center and Korean folk village, and the company anticipates up to 400,000 visitors a day to the \$1 billion project. If the indoor theme park succeeds, Shigemitsu will consider building two more, near Tokyo and New York.

Fantasy? Shigemitsu has brilliantly anticipated social trends before. "Korea is motorizing," he points out. "On the weekend families are going out together more. People will remember me by Lotte World." ■



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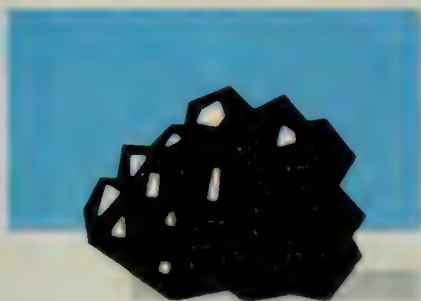
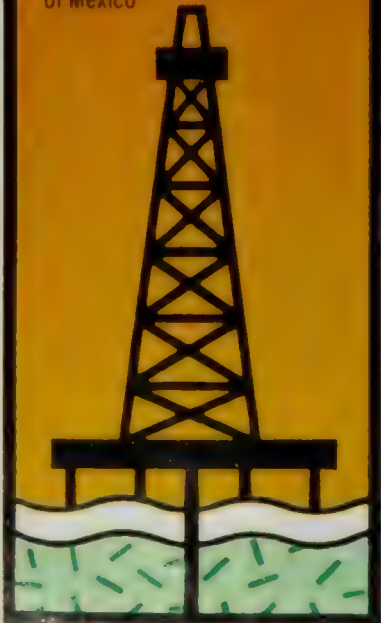
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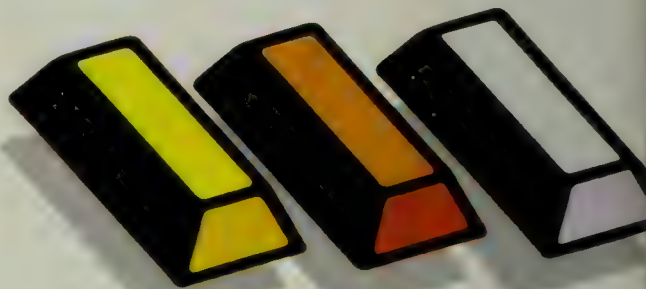
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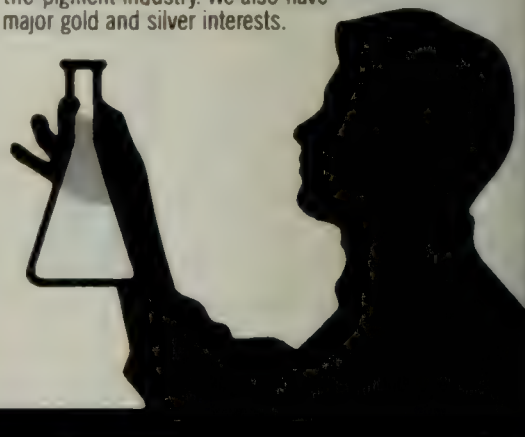


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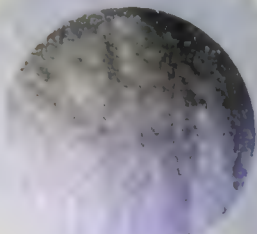
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BP AMERICA
THE BEST OF BOTH WORLDS

The FAA's Allan McArtor wants the civil aviation world to adopt the fancy Tiltrotor. It's a mighty hard sell.

Whirlyflak

By Howard Banks

TO PRACTICALLY anyone who will listen, T. Allan McArtor, head of the Federal Aviation Administration, is trumpeting the praises of the Tiltrotor, the part-helicopter, part-plane aircraft being developed jointly by Boeing and Textron's Bell Helicopter to carry Marines on assault missions. Asserting that "Tiltrotor is one of the most exciting technologies to have appeared," McArtor hopes to convince the civilian aviation community that it has great commercial as well as military promise. He even tried to sell the idea

to top European aviation officials at a private breakfast at the U.S. embassy in London during the recent Farnborough air show. But McArtor's pitch is marred by some inconvenient facts.

A dream in designers' eyes for 50 years, the Tiltrotor technology is now feasible and sounds like a perfect answer to increasingly crowded air lanes. It can take off and land vertically like a helicopter and, with its twin rotors tilted forward, can fly at speeds of up to 360 miles per hour, like a turboprop. Proponents see Tiltrotor replacing conventional commuter aircraft on routes up to 300 miles.

So what's the problem? Tiltrotor,

the first prototype of which is due to fly later this year, works for the military, but the military has different standards from the civilian market when it comes to things like inherent safety and operating costs.

Helicopters have the worst safety record in aviation. Tiltrotor's greater complexity at critical points—it has, for example, four transmission gearboxes—worries many engineers. The rotors (26 to 46 feet in diameter) must be capable of tilting back quickly from plane-like vertical to chopper-like horizontal, regardless of any mechanical failure. Otherwise the craft can't land safely. Power must instantly be passed to both rotors if one engine fails. The rotors must be resistant to any bird strike.

With today's technology, these and other technical problems can be solved—with lots of development money. But the solutions and the necessary redundant systems also add weight to the aircraft, and add complication to its maintenance and therefore to its operating costs. A joint FAA-NASA study into the civilian use of Tiltrotors (led by Boeing's commercial aircraft division) calculates that the operating cost of a 31-seat civilian Tiltrotor would approach \$850 an hour, versus \$180 for the same size conventional turboprops now entering service. For comparison, a helicopter of the same size costs around \$1,500 an hour to operate.

Tiltrotor's proponents retort that the craft will operate from downtown and save commuters time and taxi fares to the airport. But with all those extra costs to cover, Tiltrotor's fares will inevitably be very high, especially operating on routes that are even marginally out of the ordinary. Many travelers already complain about the high price of conventional commuter airline tickets.

And what about the cost of the multitude of heliports that enthusiasts talk of? The new heliport at the foot of New York's Wall Street cost \$13 million (the federal government contributed \$6 million). A Tiltrotor base—or "vertiport"—would have to be much larger; when its rotors are turned to the horizontal, a 75-seat Tiltrotor would cover more pavement than a 130-seat Boeing 737. The Tiltrotor is a bit quieter than a helicopter. Even so, it's a safe bet that many cities will not happily put up with the additional overhead noise from the craft. "It's sure not going to sneak in and sneak out," concedes Lieutenant Colonel Pete Perduzzi, director of the FAA's Tiltrotor special project office. Nor do many airport managers see



Senator T. Allan McArtor
It's fun to fly, but who will buy?

Jim,
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the government, let's look into it.
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THE NEW YORK TIMES

U.S. Chooses Diners Club For Credit Card Contract

By CALVIN SIMS

The General Services Administration yesterday awarded Diners Club Inc., a subsidiary of Citibank, a one-year contract to provide credit card service to more than 400,000 Federal employees who travel frequently on Government business.

Diners Club currently provides credit card services to Federal employees under a pilot program that began in 1983. That contract expires Nov. 30, when the new contract will take effect.

Citibank competed against the American Express Company and the Security Pacific National Bank for the contract, which is worth an estimated \$600 million in charges for one year, the G.S.A. said.

What percentage of those charges Diners Club would retain was not disclosed. Banking analysts estimated that an average commission for Diners Club was about 2 percent.

The contract, which has four one-year renewal options, becomes effective Nov. 30 when the G.S.A.'s current card agreement expires.

next five years.

John Keffe, a banking analyst for Drexel Burnham Lambert, said he could not place an exact value on the contract without knowing its specifics. But he called it a "nice piece of change which could multiply as other Government agencies join the program."

Gary Tobin, a spokesman for American Express, said it would not be appropriate for it to comment on the contract because the company had not been notified of the award. American Express handles more than \$80 billion in charges a year.

John Alderson, G.S.A.'s acting administrator, said in a statement that the use of accepted business practices, like commercial credit cards, could help the Government to manage more effectively its financial resources.

The G.S.A. said the credit cards are used only for official travel expenses. Under the program, employees receive bills from Diners Club and pay the credit service company directly.

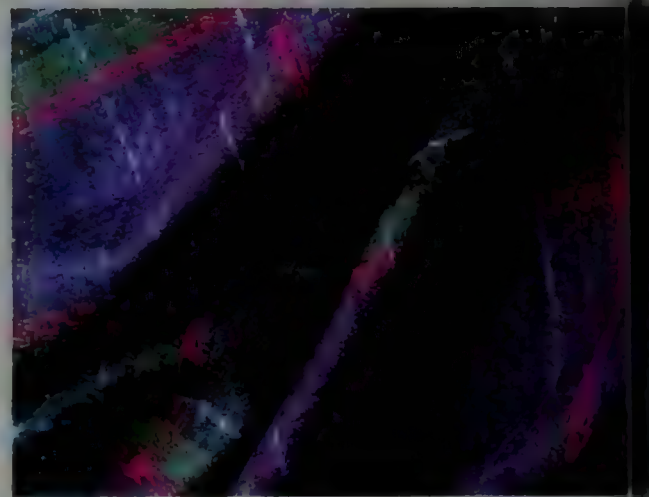
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any advantage in swapping scarce landing slots from today's aircraft to Tiltrotors.

The project's friends claim that Tiltrotor has won one potential civilian user to its cause: Federal Express, which would love to find a way to avoid jammed city streets and clogged airports and improve customer service through later collections and earlier deliveries. But don't be so sure. "It will have to be competitive on reliability as well as cost," says James Reidmeyer, senior vice president for air operations at FedEx. Realistically, he says, Tiltrotor today has a 5%-to-10% chance of making it in the civil market.

Such proper skepticism doesn't

Says one top FAA insider, "It's a very awkward thing that's going on." Other than in air traffic control systems, which are the FAA's clear prerogative, no one can remember a previous FAA administrator pushing so hard for one particular technology.

stop McArtor's pitch, however. "Express packages?" says McArtor. "Yes, I'm very familiar with that market." He says it coyly. Before McArtor became administrator at the FAA in July 1987, he was a senior vice president at FedEx. Nobody is suggesting outright conflict of interest, but, says one top FAA insider, "It's a very awkward thing that's going on." Other than in items like air traffic control systems and air navigation equipment, which are the FAA's clear prerogative, no one can remember a previous FAA administrator pushing so hard for one particular technology.

The FAA has to date budgeted several millions to further Tiltrotor's chances, including \$585,000 for a feasibility study by the Port of New York and New Jersey. There is also to be a \$1.2 million follow-up to the FAA-NASA study, with half coming from Boeing and Textron. So far, the only thing the fuss has achieved is to divert scarce management time at the FAA away from such pressing concerns as airport congestion and airline safety. Congress is also debating the recommendation of a presidential commission on aviation safety, which McArtor opposes, that the FAA should be separated from the Department of Transportation, to make air safety less of a political football.

It would seem that Allan McArtor's time could be better spent. ■

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Franchise companies have been reporting income they haven't earned. Now the SEC has begun a welcome crackdown.

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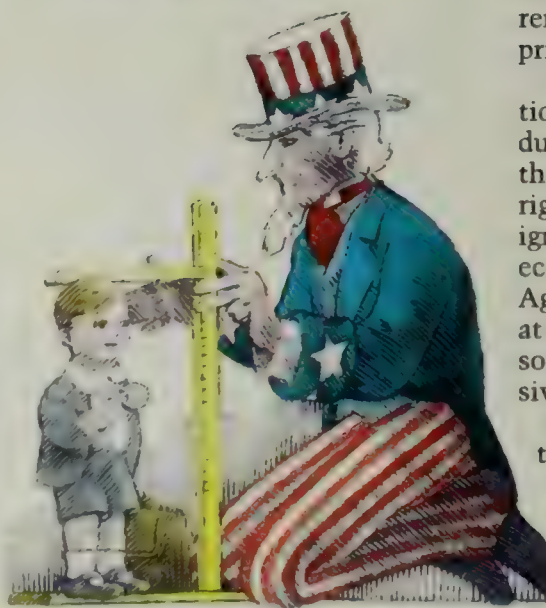
By Penelope Wang

LAST FEBRUARY Jiffy Lube International, a Baltimore-based franchiser of quick-oil-change centers (fiscal 1988 revenues, \$78 million), was ordered by the Securities & Exchange Commission to change its accounting. The surprise order resulted in a staggering earnings hit for the first quarter of Jiffy's 1989 fiscal year: net income of \$95,000, less than 25% of what Jiffy would have reported. Why the SEC order? Because the commission said Jiffy was claiming income it hadn't yet earned.

Over the past two years, the SEC has made similar charges against about half a dozen other fast-growing startups in the franchise field. Among them: Moto Photo, Inc., Swensen's Inc. and Le Peep Restaurants, Inc.

The accounting issue involves the tricky problem of revenue recognition from the sale of so-called area development rights. These are contracts that are sold by the company granting a developer the exclusive right to open franchises in a particular territory. In return, the developer traditionally pays the company a nonrefundable fee up front.

For years some franchisors have been reporting these upfront fees as current income. But the SEC argues that the increasing complexity of the contracts no longer makes doing so permissible. These days, area developers are often required to open a certain number of stores within a set time period. In some cases, the franchisor also agrees to provide training and marketing support services to the developer. By imposing such conditions



on the agreement, the SEC argues, the franchisor changes the nature of the fee paid in the deal.

The SEC's position is based on two long-held accounting principles: Revenue must be earned in order to be recognized; and costs must be matched with revenues as they are earned. Says Peter Knutson, associate professor of accounting at the Wharton School: "If some effort or sacrifice isn't put forth, then the revenue hasn't been earned."

In publishing, for example, magazines collect fees for subscriptions up front, but until the magazine publishes those future issues, the money cannot be recognized as revenue. Instead, the funds must be recorded as a balance sheet liability, often labeled "unearned income." When the issues are published, the revenues are taken into income and the costs of publishing are deducted.

In the case of area development fees, the SEC argues that companies have not truly earned the revenues

until the franchise units are open and operating. Moreover, the SEC argues that franchise companies sometimes use area development fees to meet the costs of servicing the developer, and therefore that this income should not be recognized until the costs are incurred as well.

One of the first companies to draw the attention of the SEC to this issue was Le Peep Restaurants, a Denver-based brunch chain, which filed for an initial public offering in mid-1986. Originally the company planned to sell about 1.7 million shares at up to \$10 per share. But after the SEC determined that Le Peep had overstated income from area development fees, the company had to revise its financials. As a result, Le Peep's offering was delayed and the company sold only 1.3 million shares at 6½. (Currently the stock is selling at a bid price of 1¾.)

Not surprisingly, the SEC's position has dismayed the franchise industry. "The economic substance of the transaction—selling exclusive rights to develop an area—is being ignored," contends David Mason, executive vice president of Moto Photo. Agrees Ronald Diegelman, a partner at Ernst & Whinney: "It seems unreasonable to say that the right of exclusivity does not have real value."

But the SEC rightly responds that the right of exclusivity has value up front only when it is granted to a developer without conditions. If an agreement says, for instance, that a franchisee must open ten stores in five years in order to preserve his exclusivity rights, then the exclusive right should have value only as the stores are actually opened.

Franchisors complain that the SEC's position will particularly hurt startup companies, which depend on area development agreements to attract sophisticated entrepreneurs to their businesses, as well as to provide them with much-needed cash. "In the long run, this could have a major financial impact," says Neil A. Simon, counsel for the International Franchise Association.

That way overstates the case. After all, fee income will still be realizable—just not up front all at once. In fact, the SEC's position may well have a salutary long-term effect in preventing small franchisors from trying to grow too quickly. In any case, this seems to be one area in which the SEC, much criticized in recent years for its dozing oversight of the securities markets, is proving itself both wide awake and on the ball. ■



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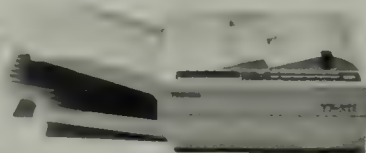
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Taxing Matters

It's hard enough to build a family business and pass it on to the next generation. A little-known change in the tax code now makes it even harder.

Freezing out the estate freeze

By Laura Saunders

THE FAMILY BUSINESS created by Wyoming rancher and oilman H.A. (Dave) True Jr. is now grossing around \$70 million a year. True's sons—Hank, 45, Diemer, 41,

and David L., 37—want to take over the business. With skill, luck and the law of compound interest working for them, the boys stand a chance of making the business even bigger—if their father, 73, can pass it on to them.

It's a big "if." Because of a little-

known estate tax change Congress slipped into last year's tax act, it is not clear that Dave True will be able to pass the business on to his sons. "This is the most asinine thing I ever heard of!" says True of the new law. "There isn't a senator who knows what this thing does to people!"

The irksome law, which Congress passed without any hearings and with little advance notice, concerns "estate freezes." The estate freeze is a popular technique for passing family businesses from one generation to the next. Many estate tax lawyers say the law makes it difficult, and perhaps impossible, for thousands of Americans to keep their firms intact between generations.

"It could affect everything from family farms to car dealerships to manufacturing firms, and even some public companies," says attorney James Trapp of Chicago's McDermott, Will & Emery. So broad is the new law, warns estate tax specialist Malcolm Moore of Seattle's Davis, Wright & Jones, that "every intra-family transaction in the country is on hold, or should be." Here's the problem:

In a typical estate freeze, the aging



Patricia Barry Lens

... is the most asinine thing I ever heard of!"



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owner of a business recapitalizes the firm so that much of its current value is allocated to preferred stock, while its future growth is allocated to common. The founder then keeps the preferred, and sells or gives the common stock to his children, paying the appropriate taxes, of course.

Suppose private Acme Co. is worth \$20 million. Acme's aging founder-owner wants his son and daughter to take over the company, but he wants to spare the firm and the kids the burden of buying out his entire equity at once. So he "freezes" the value of his stock by recapitalizing the company. He splits the \$20 million total equity value into preferred stock worth, say, \$16 million, and common stock worth \$4 million. He keeps the preferred and gives his children the common. Most likely the preferred not only pays a nice dividend for the golden years but is also a voting security, so that the founder can retain some control.

If the business prospers before his death, the founder's preferred won't rise in value, or at least won't rise as much as the kids' common stock will. As a result, when the founder dies, it will be easier for the children and the firm to buy the founder's stock from his estate: The preferred stock will account for a smaller chunk of the company's equity. The founder's es-

tate taxes (55% of \$16 million) will also have been locked in by the freeze.

Without estate freezes, a founder might die and leave so much valuable equity in his estate that the kids could never raise the money to buy it or pay estate taxes. Then the only solution would be to sell the company to pay the death taxes.

Isn't this a ripoff of the Treasury? Not really. After all, when the firm was sold, the founder was old and the children were the ones really active in the business and making it more valuable. Only fair, then, that taxes on the additional value should be paid by them, when they sell out or die.

Sounds eminently reasonable. But staffers on Congress' Joint Tax Committee didn't like the technique, largely because of the headaches involved in valuing private enterprises' securities. The staffers and taxmen assumed that any time a parent sells anything to his children or grandchildren, the assets will be undervalued so as to reduce the parent's estate.

Rather than have the IRS investigate every such transaction, Congress ruled that no freezes involving lineal descendants (i.e., children and grandchildren) should be allowed, period. In effect, the new law treats estate freezes after Dec. 17, 1987 as though they never happened. If a business grows between the time the estate is

frozen and the death of the founder, all of that subsequent appreciation is thrown back into the owner's estate and taxed, at rates up to 55%.

To return to our hypothetical example above, suppose that when the founder dies, the value of the common stock has grown to \$40 million from \$4 million. Under the old law, that \$36 million of appreciation would have accrued to the children's estate. Under the new law, the appreciation reverts to the founder's stock, which would pay as much as \$28.6 million in estate taxes (55% of \$36 million of common stock and \$16 million of preferred), as opposed to \$8.8 million (55% of \$16 million) under the old law.

What if the children and the company can't come up with enough cash to buy the stock? Tough. The business would have to be sold to pay the taxes.

This, then, is why rancher Dave True and a passel of estate lawyers around the country are boiling. "There's no incentive for my children to work hard, only to have the results taxed in my estate," says True, who, with his wife, started the ranch in 1957 with 35 cows, a bull and 6 horses. True's three sons—and later their wives—have always worked in the business, except while they were in college. "And they got dirty," he says. "Several of my grandchildren have



Quill Corp.'s Jack Miller (back row, second from right) and family

"I think the government doesn't like successful family businesses."

Richard Derk

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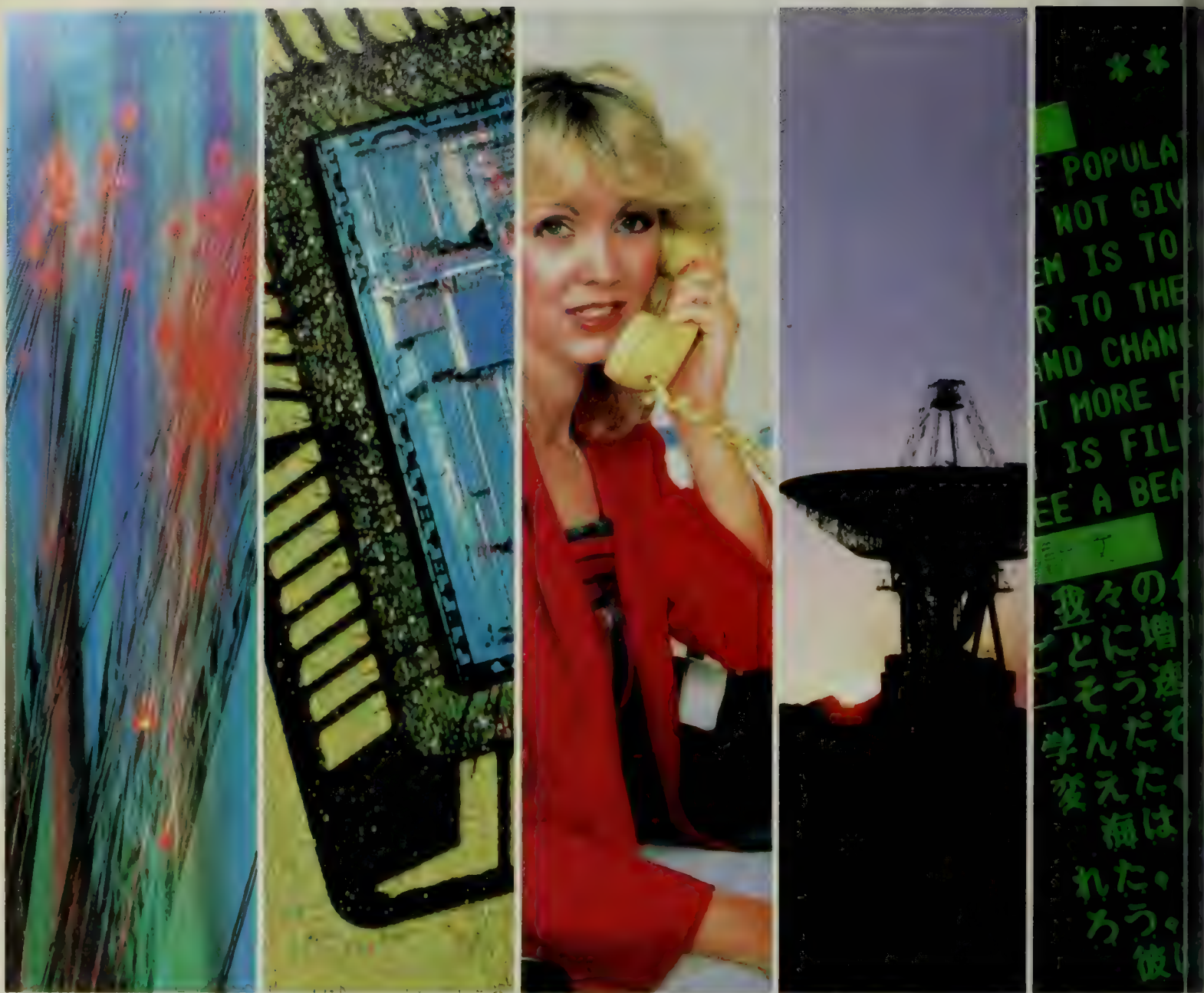
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Gallos humor

The estate freeze repeal is the second blow in as many years to families trying to accumulate wealth and minimize estate taxes. In the 1986 Tax Reform Act, Congress slammed the door on "generation skipping" trusts, long a favored tool of estate tax planners.

The idea behind such trusts was to avoid paying estate taxes as every generation passed away. Instead of leaving his estate to his children, a taxpayer would leave part or all of it to his grandchildren or even great-grandchildren—properly controlled by trusts, of course. That way estate taxes would be due on the principal at the grandparent level, but not again until both the trust and the beneficiary expired.

No more. The 1986 tax law makes it clear that full transfer taxes are to be paid by every generation. The IRS will sock taxpayers who try to avoid the law with taxes at the highest estate tax rate—55%—on every dollar they try to shift. (Ordinarily, taxpayers benefit from phased-in rates.)

Any way you slice it, 55% every generation is a big hit to a fortune. But lawmakers opened a window

when they slammed the door. Every individual is entitled to a \$1 million exemption from the generation-skipping rules. In other words, a couple can pass up to \$2 million to future generations without falling afoul of the law.

Even more important, lawmakers included a \$2 million per grandchild exemption to the rules for transfers made before Jan. 1, 1990. Experts archly call this the "Gallo Amendment," after the wealthy California wine family that persuaded Congress to tuck it into the 1986 law.

Peat Marwick estate planning expert Milton Schultz notes that these exemptions offer prime opportunities for estate planning, especially for "sacred family assets," as he terms them. He suggests using the \$600,000 estate and gift tax exclusion available to each taxpayer in combination with generation-skipping exemptions to safeguard prized holdings—homes, businesses and so on. But do it now. Advises Schultz: "For people with large and perhaps illiquid holdings, it may take most of the time between now and the end of 1989 to get these things done."—L.S.

shown an interest in the business, but with this law, I have to say 'Go work for somebody else, I don't have anything to offer you.'"

Another businessman upset over the law, but for a different reason, is Jack Miller. Miller and his two brothers own and run Quill Corp., based in Lincolnshire, Ill. Started in 1956, Quill, the L.L. Bean of office supplies, grosses over \$200 million annually from mail-order sales of paper clips, stationery, microcomputers and such.

Miller and his two brothers have five children working at Quill. Now he wants to give some nonvoting stock in Quill to his two children, paying appropriate gift taxes. But the law will kick any appreciation on this stock back into his estate—unless he gives both regular common and voting common in the same proportion in which he owns them. "That," says Miller, "would change the balance of ownership between my brothers and me." He concludes: "I think the government doesn't like successful family businesses."

The American Bar Association has urged Congress to repeal the law. In

addition to the harm it does family firms, ABA members worry that the law is so broad that it might even affect the sale of a house from parent to child. In its stead, they advocate requiring that firms notify the IRS in advance of undertaking an estate freeze. That way, the taxmen could be on the lookout for undervaluers.

But the odds against this sensible compromise are long. In fact, a provision of the Technical Corrections tax bill likely to pass this year would apply the law to all transfers of joint interests.

"Congress has no conception of how hard it is to keep a successful small business going," says Walter Primoff of the New York State Society of CPAs. "They just think of it as a gold mine or freebie for the kids. But a family business is a very, very complicated thing, much harder to keep going than a Forbes 500 company."

Quill's Miller is blunter. "The government is absolutely crazy," he says. "If you work hard and build a successful private business, it's almost impossible to keep it in the family. Maybe the Japanese will buy us all out." ■

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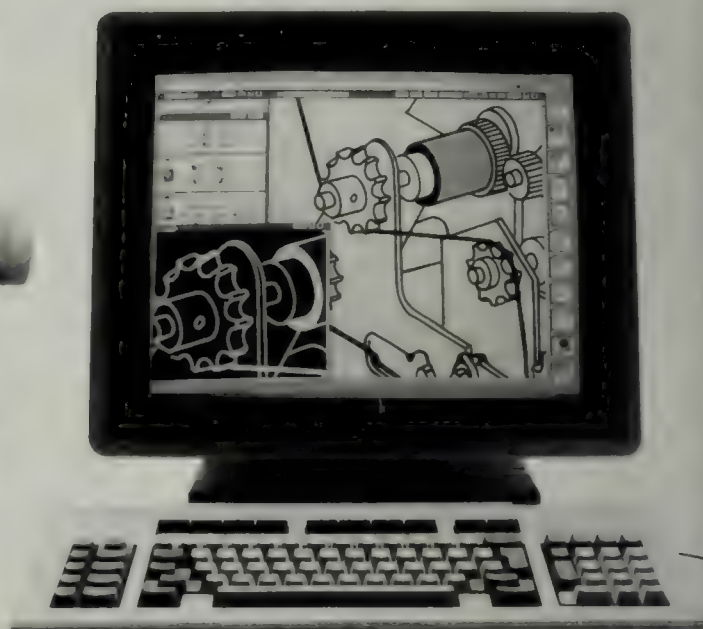
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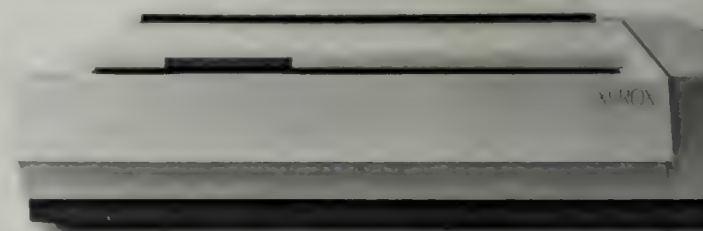
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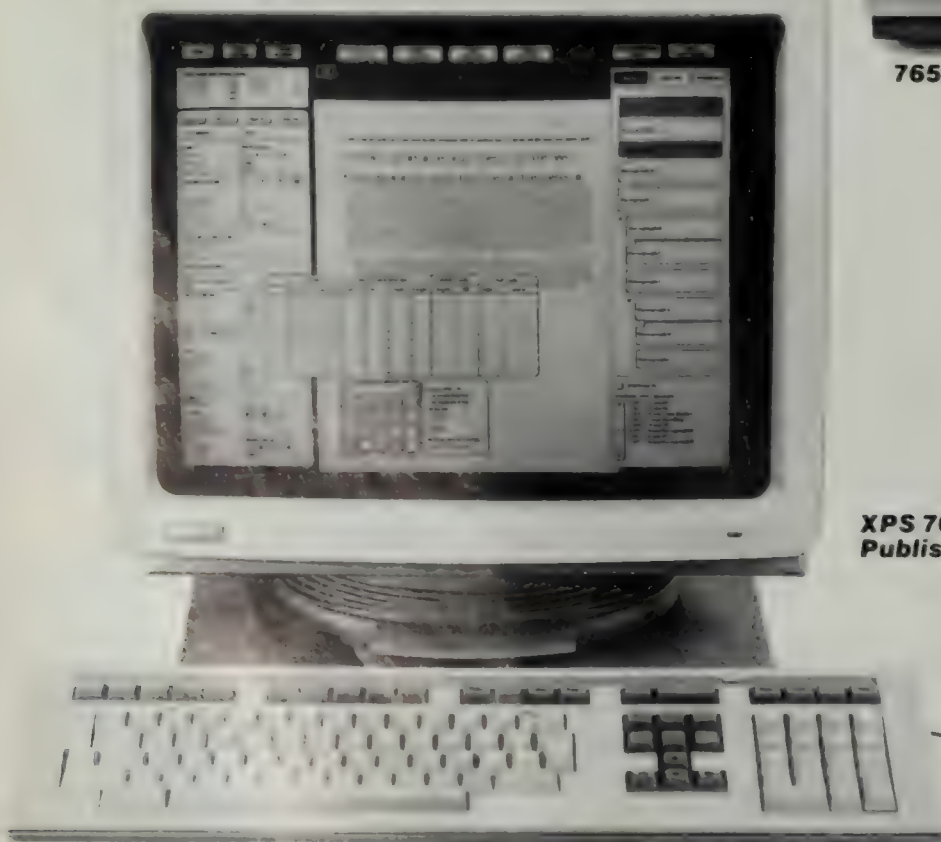
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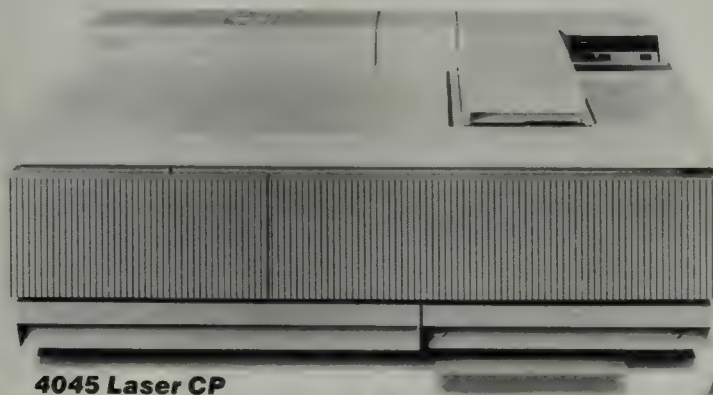
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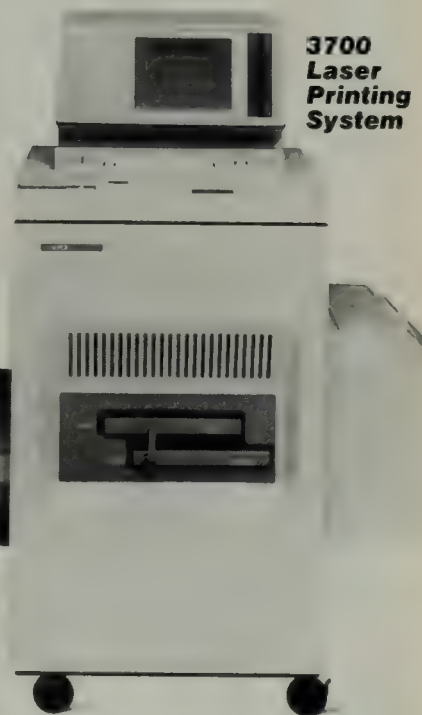
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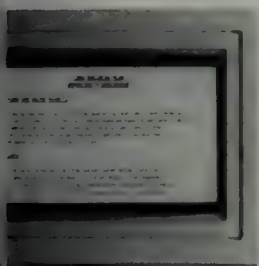
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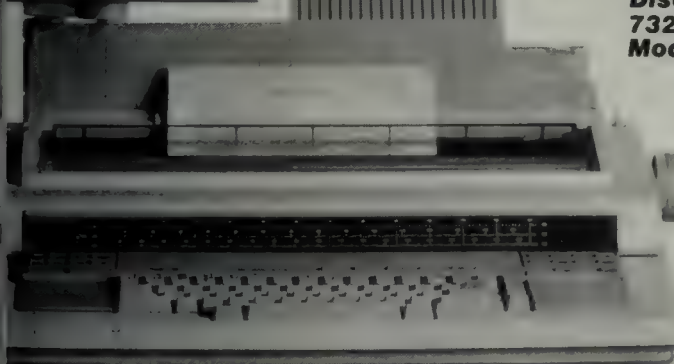
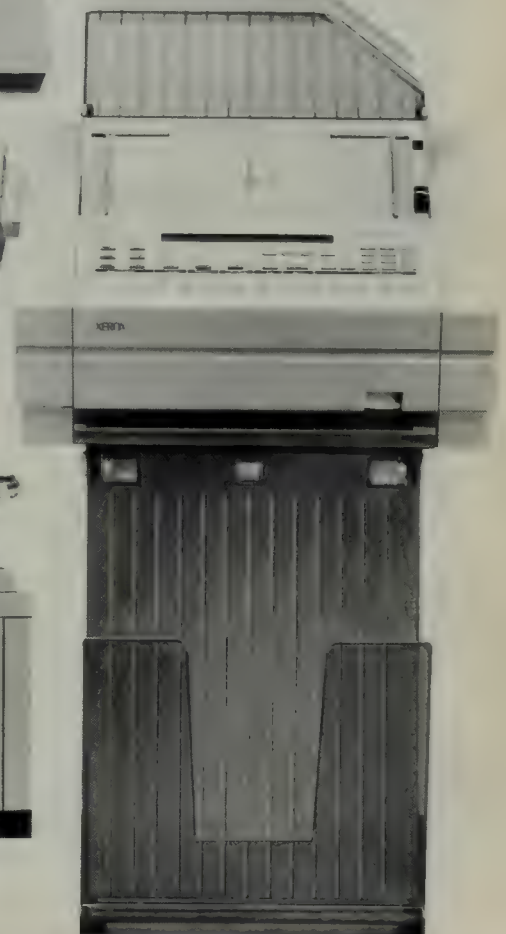


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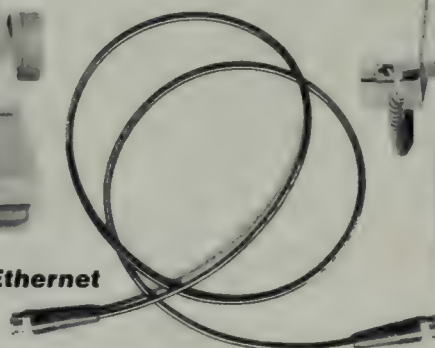


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What's the secret of Korean immigrants' success in running small businesses? More than just hard work.

Horatio Alger Kim

By Matthew Schifrin

ONE TASTE OF *kimch'i*, the fiery pickled cabbage with a mind-bending aroma that is Korea's national dish, made *Today* show host Jane Pauley lose her composure and drove her off the NBC set after she sampled it for viewers just before the Seoul Olympics. Few other Westerners take to *kimch'i*, either, which helps explain why most Americans have never set foot inside a Korean restaurant in the U.S. Too bad, because if they did, they might get a lesson in economics even more stimulating than a mouthful of *kimch'i*.

Korean restaurants are the new home of an ancient Asian practice of savings and capital formation called *kye* (sounds like keh). *Kyes*, prevalent in South Korea, are being used in America to finance thousands of small, Korean-owned businesses.

In a typical *kye* a dozen or so friends or alumni meet once a month over a meal of *kimch'i*, rice, barbecued beef and Korean whiskey. Afterward, each person ponies up the same amount, anywhere from \$100 to \$40,000, in cash, adding to a pot that can sometimes reach \$400,000. Every month a different member of the *kye* receives the entire sum raised that month and pays for dinner. There are no credit checks or questions asked. The system is based on trust, and the only requirement is that each member contribute until the last member has had a turn to take home the kitty, and everyone is made whole.

It is just one of the reasons Koreans collectively have emerged as an economic powerhouse in the U.S. Surveys indicate that as many as 60% of roughly 1 million

Koreans in the U.S. are self-employed, the majority having started their first business within four years of arriving. Today most Korean shopkeepers earn more than \$50,000 a year. Hundreds of them have become millionaires. The thousands of small shops that they operate contribute billions of dollars to the U.S. economy.

In New York Koreans own 85% of the \$500 million retail greengrocery business, many of the dry cleaners, nail salons, fish markets and a good chunk of the garment industry. Throughout the country they dominate the import and wholesale distribution of South Korean goods like wigs, costume jewelry and leather handbags. In Los Angeles they own most of the liquor and convenience stores and garment factories. In Anchorage the city's 6,000 Korean immigrants are gaining a footing in restaurants, tailoring, gas stations and janitorial services.

Koreans in the U.S. are rarely innovators. Rather, they are masters at revitalizing sleepy, small businesses. Take Young Jun Kim, 44, who came to Los Angeles nearly penniless in mid-1983 after ten years as a tuna boat captain based in the South Korean port of Pusan. For four years he and his wife, In Sook, worked long hours, six days a week; he delivered sewing machines to garment factories and his wife worked in one. On Sunday they went to church.

In May 1987 Kim bought a run-down liquor/convenience store in East Los Angeles, the city's Mexican barrio. He immediately applied a coat of paint, installed television surveillance and expanded operating hours from 6:30 a.m. until midnight on weekdays, and until 2 a.m. on week-



ends. Besides a brisk business in José Cuervo Tequila, Kim now also offers check cashing, lotto tickets, luggage and even tickets for the bus that stops in front of his shop. The Kims—including two sons who work at the shop on weekends—have yet to take a single day off. Kim, who speaks better Spanish than English, hopes to buy a house soon.



Chi Jin Ok and his wife Gil Ja at one of their Brooklyn diners
Successful restaurant owners who are not above wearing aprons.

Peter Freed

According to Kim's accountant, Yoon Han Kim, who has over 100 Korean clients, it usually costs around \$300,000 to buy a liquor store, and buyers typically put up 50% in cash. So how did Young Jun Kim come up with \$150,000 or so, in cash, in just four years? "We saved very much," says Kim, with astonishing understatement. And what about *kye*

financing? Kim clearly recognizes the word, but stares blankly and waves his hand as if he doesn't understand.

The reason Kim and most other Koreans refuse to talk about *kye* is that they think it is illegal in America. In fact, they're generally wrong. However, in some of the more sophisticated *kyes* members bid for the pool by stating the amount of interest they will

pay to get first crack at the money. Those with urgent financial needs might bid 15% interest on a \$100,000 pool and take home only \$85,000. In such cases, *kye* members are right to fear IRS scrutiny of unreported interest income.

Still, *kyes* have become so popular in communities like Los Angeles that Koreatown banks have recently begun

original savings plans are not like *kyes*. At Los Angeles' Hanmi Bank, anyone entering into a 12-month, \$10,000 plan is eligible for an advance of the entire amount after four months of saving.

But *kyes* are just part of the picture. Ever notice that Korean shops usually are the first ones to crop up in the neighborhoods that have bottomed out and are beginning a rebound? Twenty years ago Los Angeles' Koreatown was a slum; today property values are worth at least 20 times their mid-1960s levels.

In Atlanta Koreans dominate the inner city grocery business. In impoverished sections of Washington, D.C. they run many of the small shops. In Philadelphia Koreans set up in distressed Olney; in Chicago, on the South Side. You can find Koreans in the worst sections of Oakland, Calif. and Newark, N.J. In New York there are a disproportionate number of Korean-owned businesses in Harlem, the South Bronx and Manhattan's sleazy area near Herald Square.

In this way Koreans suggest nothing so much as a sizable crowd of contrarian investors. They pick businesses in out-of-favor locations because the rents are cheap and growth potential is high.

Koreans also show an amazing willingness to adapt to new businesses or lifestyles in order to succeed. Many Koreans who have immigrated here are university educated and have never been self-employed. A disproportionately large number turn out to be the children of North Korean refugees who fled the Communists in the Korean conflict. Lacking roots in South Korea, they began emigrating to the U.S. along with South Koreans in general in the mid 1960s. Immigrants from South Korea are currently arriving in the U.S. at a rate of 100,000 a year. They open small



Olympic Auto Sales & Leasing President Andrew Ham
A 28-year-old millionaire on top of the details.

businesses in part because of language problems.

"Koreans know that they can only make \$30,000 a year with a Ph.D. but can make three times that amount by opening up a laundry," says Michael Lee, executive director of the Korean Chamber of Commerce in Los Angeles. Lee, an M.B.A. and CPA, now owns a Korean restaurant and has also

reason that a survey by Queens College sociologist Pyong Gap Min, Ph.D., showed that only 9 of the 65 Korean-owned restaurants in Atlanta, Ga. served Oriental food, and only 2 served Korean food.

Mr. and Mrs. Chi Jin Ok arrived in the U.S. in the late 1960s and have made a successful career of running American diners formerly owned by

Greeks. Chi Jin, 46, a graduate of Cheshin College in Seoul, started as a dishwasher and soon after bought a small coffee shop in a Brooklyn slum for \$8,000. The couple now own two Brooklyn diners and are looking to expand into Long Island.

"When I first started I didn't know the difference between brisket and corned beef," says Chi Jin, who has never missed work or been outside New York. "Now I can cook every dish on our 200-item menu." The couple recently bought a house in Upper Brookville, on Long Island, where home prices average around \$1.1 million and there is a 2-acre minimum lot size. The Oks have 40 employees at their two diners.

Such growth suggests that more and more Koreans will soon be facing a



Cho Hyun Shin, president of New York-based Korea Realty
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Congregants at the Korean American Presbyterian Church of Queens
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Chuck Fishman

familiar business problem, if they are not confronting it already: how to manage the move from small, family-run businesses into larger, more structured organizations. "Many Koreans are reaching a plateau and have to go to medium size," says Hanmi Bank President Benjamin Hong. "But they are limited because they don't have management skills."

Indeed, most Koreans insist on having total control of the businesses they own. Even diner businessman Ok insists on knowing every facet of his business. "If I don't," he says, "then my cook can throw off his apron and I'm stuck."

Andrew Ham, 28, continues to put in ten-hour days even though his \$30 million (sales) auto dealership in Los Angeles' Koreatown has made him a millionaire. "You can never totally trust your managers," Ham insists. "You must know the details."

As is the case with many immigrant groups that preceded them, the glue that holds the Korean community together in the U.S. is its churches. Besides worship, they are places for socializing, for cultural activities and

for making business connections. In Atlanta Koreans first got into the grocery business after a group of Koreans in a local Baptist church got jobs in a regional store chain and began hiring their friends. Today Koreans own 300 grocery stores in Atlanta and dominate the business.

According to sociologist Min, only about 25% of South Koreans in the old country are Christian, but no sooner do they arrive in the U.S. than 70% of the immigrants begin attending various Protestant churches, mostly Presbyterian. In the New York City area alone there are over 300 churches with Korean congregations. "Since I came here in 1978, I never missed one week of church," says Suzie Oh, a Bayside, N.Y. nail salon proprietor who rarely went to church in South Korea. Besides the nail salon, Oh's family owns a car wash in Connecticut, a commercial building in New Jersey and two houses in New York's borough of Queens.

Like most Korean churches, the Korean American Presbyterian Church in Flushing, N.Y. sends out a fleet of vans to pick up businessmen and fam-

ilies and bring them to services. Accommodating itself to the frenetic work pace of the faithful, the church offers services as early as 6 a.m. and as late as 8 p.m. The 3,000-strong congregation donates to such organizations as the local police and is about to buy a 500-room resort in the Poconos for religious retreats.

Yet for all of their tenacity and success in business, Koreans have still to gain a foothold in U.S. politics. Because of South Korea's persistent political turmoil, most seem to distrust politicians and feel that building an economic base is more important than dabbling in politics anyway.

"Our country is small, and for years we have had to survive many bad situations," says Dr. Young Lee, who was cleaning dental laboratories 13 years ago. Today Lee is a dentist with investment holdings that include commercial office buildings and a home in Beverly Hills. He is also chairman of Los Angeles' Korean Chamber of Commerce. Says Lee of the miracle that is his life, "In this country there is freedom, so we know that if we do our best, we can get good results." ■

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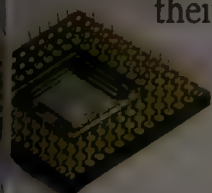


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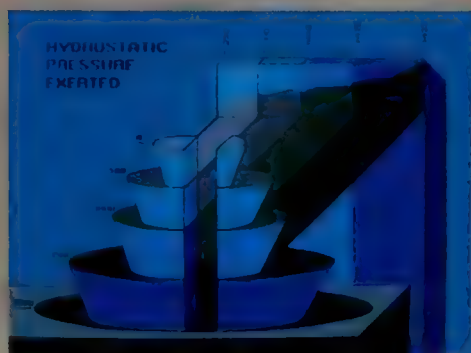
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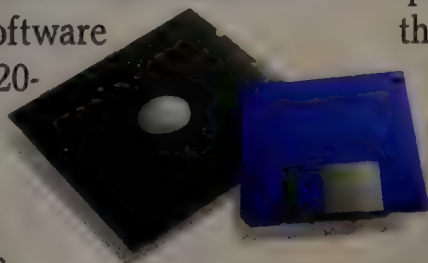
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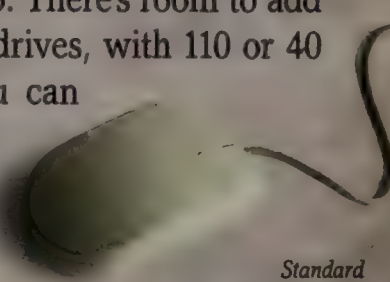
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It was a consumer product triumph that virtually created the boom in cable television. But in a world of rapid technological change, what is the future for pay TV now?

The best part of the show is over

By Deirdre Fanning

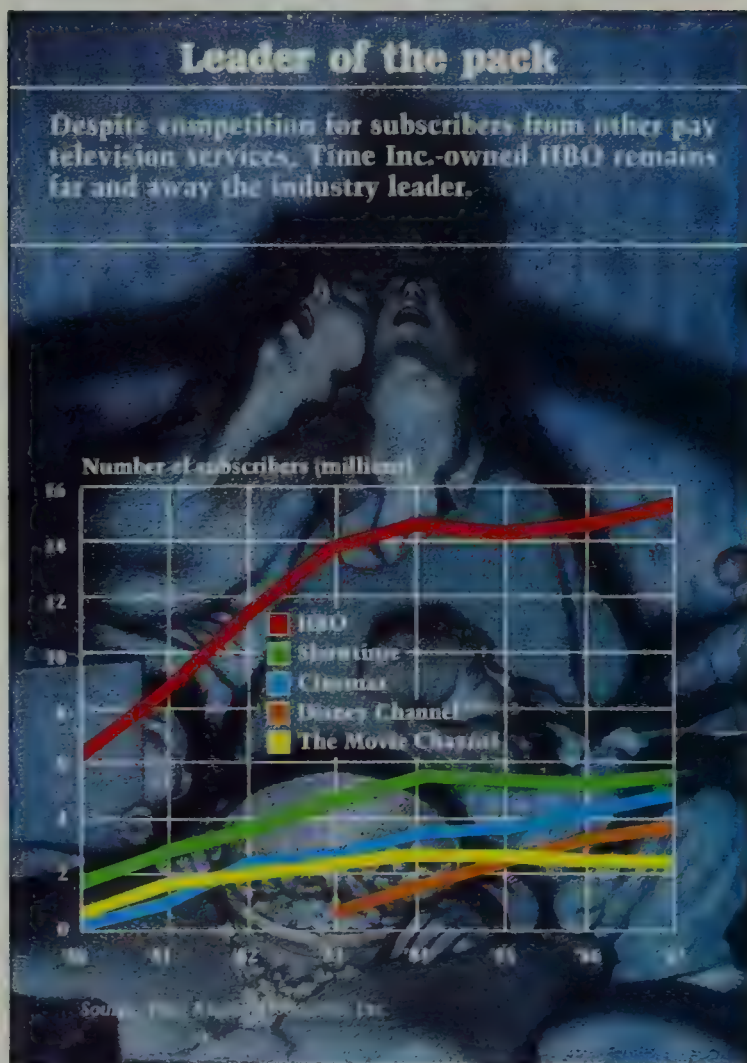
THEY WERE GREAT while they lasted, but the glory days of pay TV are dimming fast. There is still money to be made in the business of delivering movies, concert specials and sporting events to America's 46 million cable TV households for a set monthly fee. Revenues and customer rolls are still rising. But every year it will cost more to make that money, and the ability of the pay TV services to raise rates fast enough to offset higher costs is in serious doubt. The one-two punch of new technology and a rapidly changing marketplace make it as certain as anything can be in the uncertain world of business that the profit margins of pay TV's programmers will narrow. There are still more homes to be wired up—47% of U.S. homes to this day remain without basic cable service—but smaller and smaller shares of those cable subscribers will be tuning in to the likes of HBO and Cinemax, Showtime and The Movie Channel. In the case of Time Inc.-owned HBO, which dominates the industry, the margin-squeezing process has already begun.

On the technology front, the business continues to be pummeled by the videocassette boom, and now must contend as well with quickening competition from so-called pay-per-view programming. In the marketplace, consumers are being diverted by an ever-

multiplying array of video entertainment and information choices being built into basic cable service—advertiser-supported programming such as the USA Network or Ted Turner's Atlanta-based "superstation" TBS—offered at no additional cost (see chart, p. 103).

Thus, to continue to grow, pay TV giants like Time Inc. and Viacom Inc., owner of Showtime, are cutting prices even as they pay enormous sums for their program material, especially movies. Advertising and promotional costs, meanwhile, are rising far faster than new customers are signing up.

It's a bit startling that a business so young should be showing these classic signs of middle age so soon. The business really began only in 1975 when Time Inc. hit upon the idea of using satellite transponders as a way to distribute movie signals to cable companies around the country. Cable system operators picked up the signals using earth station dishes, then distributed them to their own subscribers at a monthly fee. Thus was born Home Box Office, which soon became the major attraction of cable television itself. So what's HBO's appeal? The wizard-like convenience of receiving recent movies uninterrupted by commercials in the comfort and privacy of one's own home. "[In those days] Hollywood was petrified of us," remembers HBO Chairman Michael Fuchs. "They



thought we'd own the movie business."

Soon an army of clones appeared: Showtime, Cinemax, the Movie Channel, the Disney Channel and other, smaller services. All sought to duplicate the success of HBO, which by 1984 had emerged as arguably the highest-margin, lowest-overhead operation in the history of U.S. entertainment. That year it contributed less than 20% to Time Inc.'s revenues but nearly 45% of its profits.

Videocassettes alone would have changed all that. As sales of videocassette recorders gathered momentum in 1984, more and more families discovered that the neighborhood videocassette store carried rental tapes of the same movies available on the pay services—only the rental stores had them months earlier. In addition, the stores were typically stocked with hundreds of great older titles.

Today 60% of television viewing homes and almost 80% of the homes that subscribe to HBO also have VCRs. The impact of VCRs on the pay services has been devastating. In 1985 HBO, which had been adding new subscribers at a rate of over 1 million a year since 1977, saw its customer base rise by a mere 100,000. "VCRs," says Merrill Lynch entertainment analyst Peter Falco, "have permanently changed the face of the pay television business."

The second blow to the pay services has been delivered by entertainment channels offered by basic cable services at no extra cost to the subscriber. Since the mid-1980s these advertiser-supported channels have been growing at a furious rate, with a potential audience that is now nearly twice that of pay tv.

Pay tv traditionally has had only one way to add to its revenue base—add subscribers. The basic cable channels must build audiences, too, but for another reason—to gain advertising revenues. To win those audiences, the basics have begun a major drive to boost the quality of their program offerings. Two months ago the fast-growing USA Network, 50% owned by Gulf & Western and MCA, announced its intention to spend \$300 million on new programming for the network over the next two seasons. Both Turner Broadcasting System and the Arts & Entertainment Cable Network, the latter jointly owned by Hearst, NBC and Capital Cities/ABC, have also made big recent commitments to boost the quality of their offerings.

Says Ned Nalle, vice president for pay television at Universal Television, "The basic channels are definitely becoming stronger competitors for the pay services. They have greater circulation; they have advertiser support; and they are hungry for programming that will boost their

Nielsen ratings."

The pay services face even more competition from so-called pay-per-view programming. The idea here is to charge viewers individually for a specific event—a hit movie, say, or a championship prize fight. The viewer simply chooses the program he wants to watch from a list of offered events, calls his cable company to place his order, then sits back to watch the special program flash on his tv screen. The cable company enters a charge for that event on the customer's monthly cable bill. That charge will vary. In Long Island, for example, a recent showing of *Moonstruck* was billed at \$4 per viewing home. The Tyson Spinks heavyweight title fight last June cost \$34.95 in that same cable system.

Dreams of a big payoff from pay-per-view are as old as television itself. It was a dream denied for lack of reliable technology for wiring up homes and handling the billing on a broad enough scale.

But that's starting to change, and rapidly. In 1986 2.1 million American homes—a mere 2.4% of the total tv audience—were wired to receive pay-per-view. In the nearly two years since then, the total number of cable households has grown by 10%, but the number of pay-per-view homes has more than tripled, to 6.8 million.

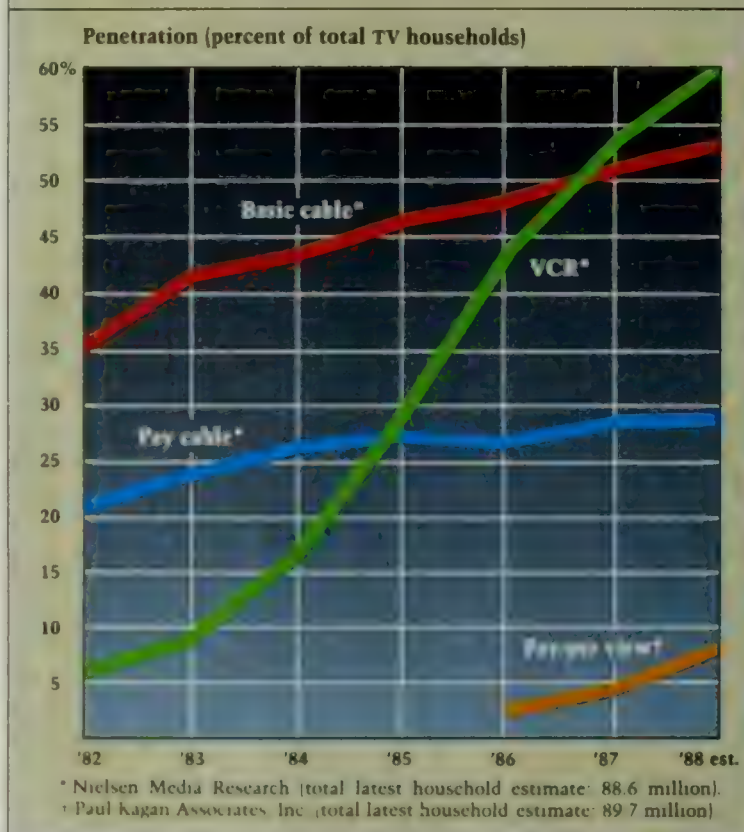
A cottage industry has sprung up around pay-per-view. In addition to the individual cable operators around the country that offer pay-per-view on their own, eight Hollywood movie studios are now participating in "Request Television," a programming service that distributes their output collectively via satellite to cable operators on a pay-per-view basis. Meanwhile, five multiple systems operators, including TeleCable Corp. and Time

Inc.'s 82%-owned American Television & Communications Corp., joined up last year to start a similar, competing service, Home Premiere Television, headed by former HBO president, James Heyworth. Even Viacom, owner of Showtime and the Movie Channel, has now gotten into the pay-per-view game through a service called Viewer's Choice. None of these companies is yet making money, but that seems likely to change soon.

The turnaround will almost certainly be speeded by the burgeoning business of sports programming. Pay tv has long focused on sports. HBO, for example, has carried the Wimbledon tennis championships for 14 seasons. In addition HBO carries *Inside the NFL*. But both cable and broadcast networks, along with pay tv, are limited in the amount of sports programming they can offer the viewer. "They have to cater to a general audience," says boxing

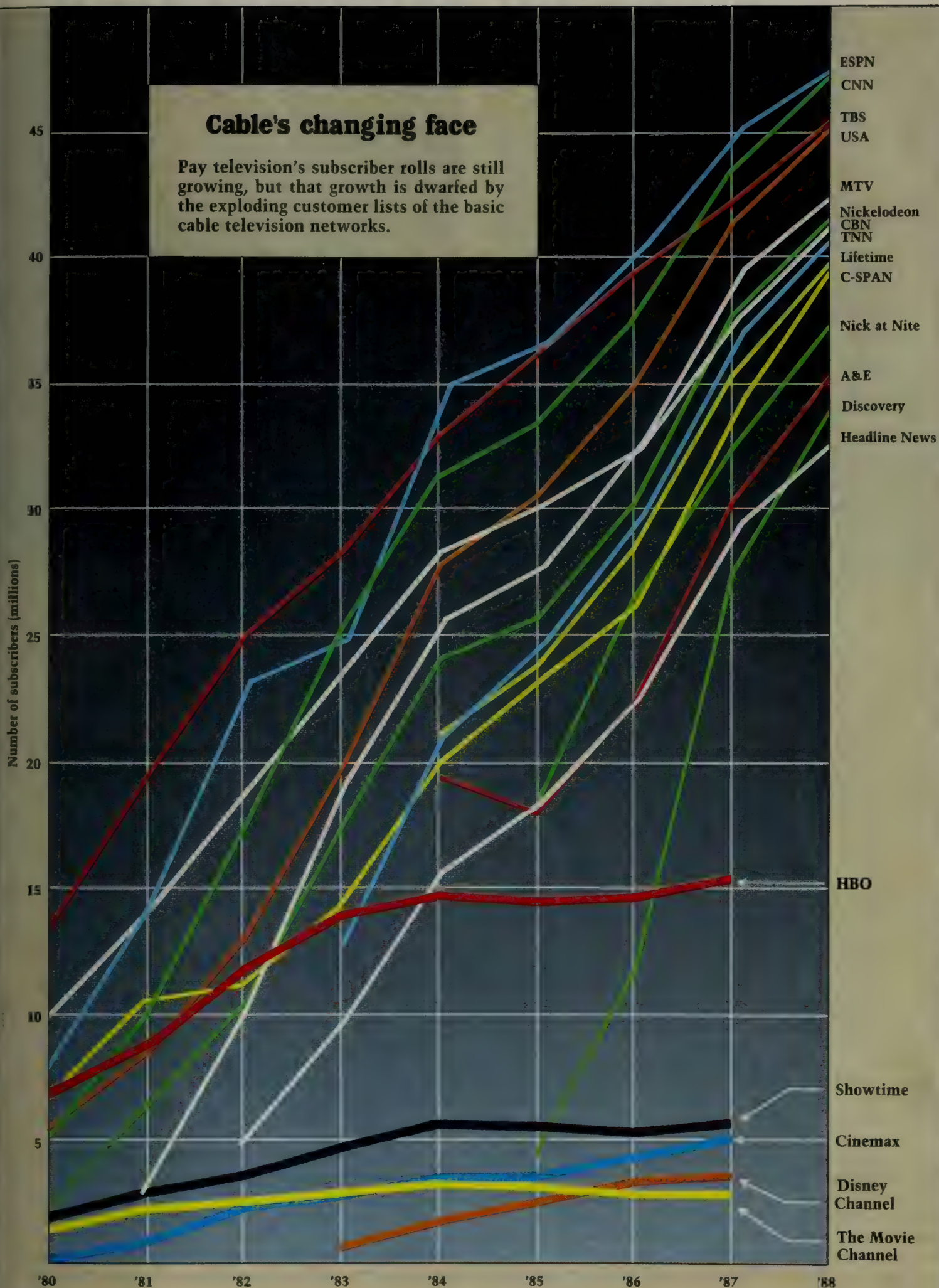
Where are the viewers?

The combined forces of basic cable, pay-per-view and the videocassette boom are relentlessly slowing pay cable's ability to grow.



Cable's changing face

Pay television's subscriber rolls are still growing, but that growth is dwarfed by the exploding customer lists of the basic cable television networks.



Sources: Nielsen Media Research (basic cable networks as of 8/88); Paul Kagan Associates, Inc. (pay services through 12/87)



HBO Chairman Michael Fuchs
Pay-per-view is a business, but when?

promoter Robert Arum. "They can't devote an entire evening to, say, back-to-back boxing events."

But offering such a choice is precisely what pay-per-view is all about. And despite the millions of dollars they are throwing into sports programming, the pay services are losing out. Although HBO spent heavily earlier this year for an exclusive seven-bout deal with heavyweight boxing champ Mike Tyson, it was pay-per-view that landed the most important Tyson fight of them all—the Spinks-Tyson bout last June. Once top athletes figure out that there's more money in pay-per-view, they'll pressure the team owners to choose it over pay or even network television, predicts Denver cable operator Bill Daniels. "The owners will have to turn to it simply to pay athletes' salaries," he says.

At the moment, the pay services are divided on how to cope with the specter of pay-per-view. As noted, Showtime, led by former HBO president and current Viacom chief executive Frank Biondi, is trying to get in on the action with Viewer's Choice. Biondi is also talking with Home Premiere Television about merging the two services and so creating the largest such operation in the fledgling business. HBO, in contrast, has refused so far to enter the fray. "We think it's a business," says HBO Chairman Fuchs. "But we don't know when."

As these competitive threats multiply around them, the pay services seem unable to do much except fight each other. In a battle that seems to be far more beneficial to Hollywood moviemakers than either the pay services or their subscribers, both HBO and Showtime have been locked in a fierce and costly struggle to line up "exclusive" rights to the output of individual studios. At present, HBO holds exclusive rights to the movies of MGM/UA, Paramount and Warner Communications, while Showtime's list includes Disney and Orion.

"What this does, of course, is give more leverage to the studios," says Paul Bortz, president of Bortz & Co., a



Cablevision Systems Corp. President Charles Dolan
Dealing for movies directly with Hollywood.

leading entertainment consulting firm. "The pay television business as it exists now is a middleman business, with the studios on one end and the cable operators on the other. At some point in a business like that the two ends start to squeeze the middle."

Industry analyst Jeffrey Logsdon, of Crowell, Weedon & Co., estimates that acquisition costs for movies by the pay services have already risen some 30% to 40% since the exclusivity wars began in earnest in 1986. According to one top former HBO official, HBO alone last year spent \$545 million on movie and original programming costs.

Such steep pay tv programming costs are worrisome enough. No less troubling are the diminishing returns in prospect on that money. Don't forget that 80% of the pay tv homes also have a VCR, and that no matter how much a pay service spends for an "exclusive" movie, the neighborhood video store will almost certainly have already been renting it for months. Even pay-per-view now gets most new movies quicker than pay tv. For example, *Broadcast News* will appear on pay-per-view this month but is not slated for pay tv until next year.

Some savvy cable operators, like Charles Dolan, chairman of New York's Cablevision Systems Corp., have begun bypassing the pay services entirely by going out to Hollywood to negotiate pay-per-view movie deals on their own. Such a deal enabled Cablevision to show *Suspect* and *The Witches of Eastwick* via its pay-per-view system.

In addition to spending for exclusivity deals, the pay services are trying to enhance their appeal to subscribers by sharply boosting the number of titles that play on their channels each month. Thus, HBO has signed for the rights to cherry-pick up to 500 old films from the Fox film library through 1991. Service officials say their subscribers are well satisfied with the product. But for how long? After all, they are being asked to pay extra for studio evergreens, which in some cases have already been on broadcast tv for free. Says industry analyst Logsdon, "The services have



Viacom Chief Executive Frank Biondi
Fighting for programming with his former employer.



James Heyworth, president of Home Premiere Television
Heading a cable-backed pay-per-view business.

got to fill up 168 hours a week with programming, and to quote that guy in *Roger Rabbit*, some of the filling is starting to smell like last week's diapers."

This problem can only get worse. For example, both Showtime and HBO also hold the right to cherry-pick up to 800 films from the old MGM library. But that library is owned by Turner Broadcasting, which this month is launching its own basic cable service, Turner Network Television, and planning to draw heavily from the library for its own 24-hour-a-day programming. However popular Turner's new service proves to be with viewers, it nonetheless constitutes yet another service available to the basic cable audience at no additional charge.

In tandem with their heavy spending on programming, the pay television services are also spending far more heavily to round up new subscribers. As the larger of the two leading pay services, HBO today is not only a major print and broadcast advertiser but also a leading purveyor of junk mail.

The pay television services are also resorting to costly incentive programs to butter up cable system operators, to ensure that they will continue to carry their offerings. HBO has historically offered its product to cable operators through a crazy quilt of prices. Generally, the wholesale rates charged to operators range from about \$5 to \$7 per subscriber per month. The operators in turn resell the service to their subscribers at rates varying from about \$7 to \$13 a month.

One such program, begun early last year by HBO, gives operators carrying HBO and Cinemax, its affiliated pay service, discounts of up to 75% or more off prevailing wholesale prices effective once the operator boosts subscriptions beyond current levels on a system. Showtime too has begun offering more aggressive incentive programs to its operators.

Such promotional gimmicks work. They helped boost the combined subscriber rolls of HBO and Cinemax by

10%, to 21 million, in 1987. But the promos are costing the services big money. According to a former HBO top official, HBO last year spent \$115 million in sales and marketing for its pay services. That is a large sum indeed for a business with gross revenues that are estimated to have amounted in 1987 to only \$872 million for HBO and Cinemax.

Such spending is a key reason for the squeeze on HBO's operating margins. In 1984, at the height of its glory, HBO boasted pretax operating margins of about 20%; analysts now calculate that those margins have shrunk to little more than half that.

In fact, HBO's margins are far slimmer than that. How so? A seemingly innocuous footnote in Time Inc.'s annual reports for both 1986 and 1987 shows that the days of double-digit profit margins are gone. In early 1986, just as the company was gearing up for its big push into promotional and "exclusivity" spending, HBO introduced an accounting change that has sharply slowed the rate of amortization for the company's programming costs, in the process boosting operating income by \$40 million to \$60 million annually. When those sums are backed out of HBO's 1987 financials, the service's profit margin drops from 9% to only 3%. Now Viacom has adopted the same gimmick for Showtime, and it may soon be showing somewhat healthier, but equally misleading, margins as a result.

Add it all up, and what you see is a business that once had a market all to itself and is now starting to show the effects of multiplying consumer choices. This is not to say that the demise of pay tv is imminent; profit margins have simply begun a steady erosion as competition for viewers has forced up costs while preventing the services from raising their prices. In short, the most exciting chapters in the pay tv saga are over. To hold their own in the entertainment business, the pay services will spend more and more to get less and less. ■

S

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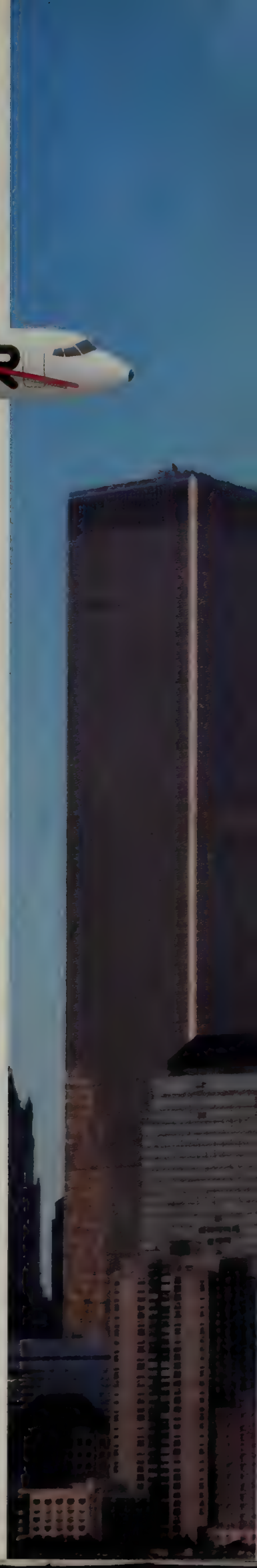


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The Up & Comers

Strategies

Irving Joel has acquired something of a monopoly in men's hats. But what good is a monopoly if no one is buying?

Monopoly losses?

By Jonathan Clements

IN THE FASHION WORLD, a lot of people believe that what goes around comes around. Wide ties and bell bottoms will come back. So, hopes Irving Joel, will men's hats. He dreams of turning hats from a tiny niche market into an essential part of everyday apparel. So convinced is Joel

that headgear will make a comeback that he has bought up the brand names that account for an estimated 70% of the \$75 million quality western and dress hat market in the U.S. "If you play Monopoly," says Joel of his acquisition strategy, "the idea is to own all the properties on the board."

Joel is the founder of privately held

VaTex Headwear, Inc., based in Richmond, Va. VaTex, in turn, counts among its holdings the old Hat Corp. of America. In the 1930s, Hat Corp. of America dominated the dress hat market with names like Cavanagh, Dobbs, Knox and Dunlap. By the 1960s, however, John Kennedy was going hatless and millions of American men followed him. HCA's sales collapsed and losses mounted.

But while dress hat sales were slumping, the market for baseball caps was taking off, and Joel was there on the launching pad. Joel, now a portly 60-year-old, started out selling men's and boys' winter caps and later turned to manufacturing promotional baseball caps under license for the likes of Jack Daniels, Coca-Cola and the National Football League. He founded his AJD Cap Corp. in 1960; it peaked at \$15 million in sales in 1977.

By 1984 AJD's sales were flat and Joel was itching to expand. Along came Miller Brothers, a struggling fabric and straw hat manufacturer from Corsicana, Tex. Joel kept the Corsicana manufacturing plant but closed the nearby Dallas administrative office and sacked its 41 employees. "To this day, I still don't know what they did," says Joel. Thanks to the leaner payroll, Miller Brothers' pretax loss of \$1 million a year soon became a \$2.2-million-a-year profit.



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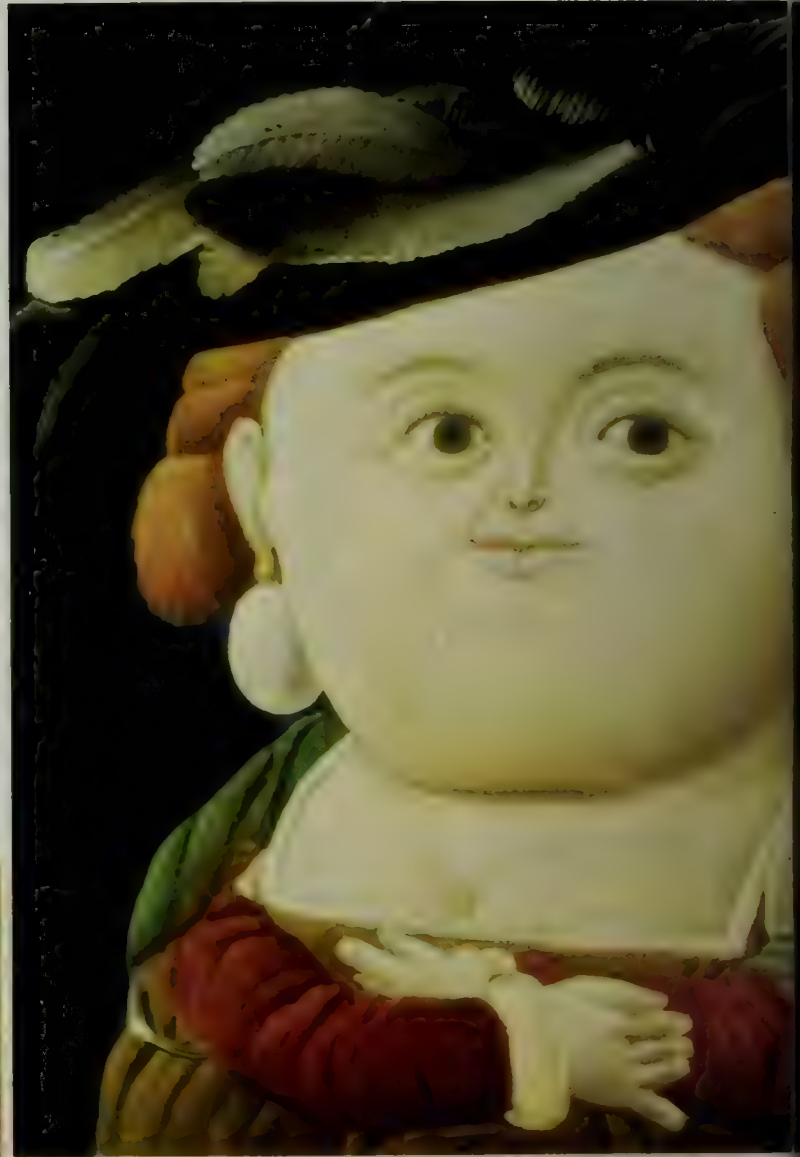
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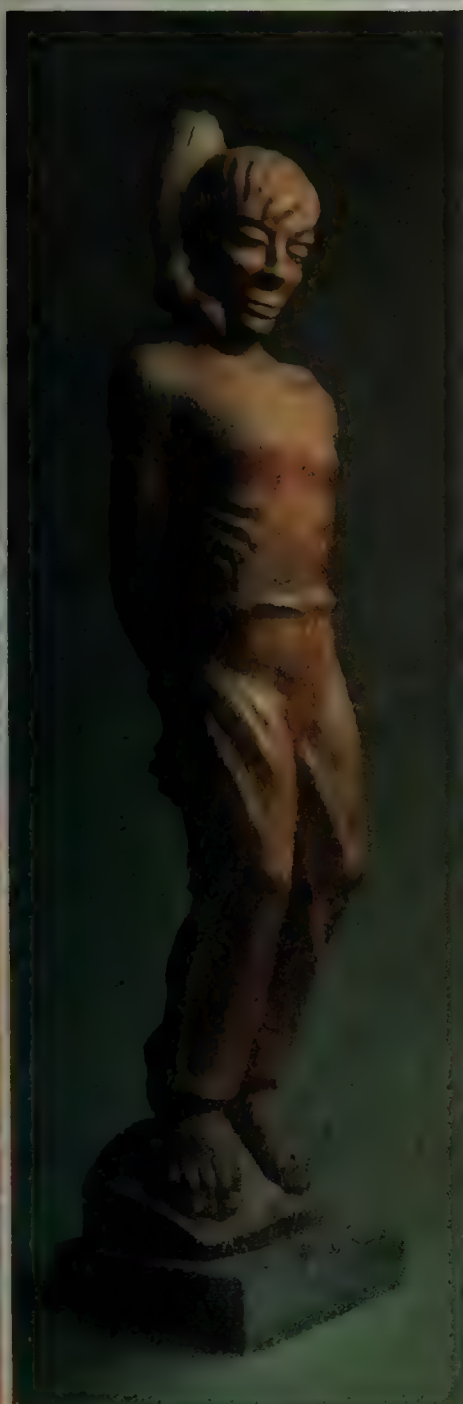
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Together



at last.



You're looking at the work of artists who fought to be accepted and won. They balked at being typecast and asserted their own identities. Now a new exhibition brings their work together for the first time, and celebrates their victories.

In their time, each of these artists was exhibited in the United States. Critics were often condescending. Yet this was work which attracted the likes of Picasso, Motherwell and Pollock. Now, seeing it all in one place is like looking at 50 familiar years of art history through a new pair of glasses. From muralists to surrealists, from abstract expressionists to the sharp stab of political poster art, we discover that these artists often led and rarely followed.

The artists are Latin American. The exhibition at the Bronx Museum of the Arts is entitled: "The Latin American Spirit: Art and Artists in the United States, 1920-1970."

Although they share a Latin American heritage, these artists lived and worked in North America and were forever changed by their experience. So finally, what this exhibition gives us — together at last — is a missing chapter in the history of American art.

It's no wonder why we were eager to give this exhibition our support, or why we urge you to see it. We're reminded that progress of an enduring and valuable nature is impossible without the spirit to create and the spirit to persevere.



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National Tour: The Bronx Museum of the Arts, Bronx, NY, October 1, 1988 - January 29, 1989

El Paso Museum of Art, El Paso, TX, February 27 - April 23, 1989

San Diego Museum of Art, San Diego, CA, May 22 - July 16, 1989

Institute of Puerto Rican Culture, San Juan, PR, August 14 - October 8, 1989

Center for the Arts, Vero Beach, FL, January 28 - March 31, 1990

(Top left to right) Domingo López, *Orange Energy*; Fernando Botero, *Ruben's Wife*; Rufino Tamayo, *Carnival*. (Bottom left to right) Alfaro Siqueiros, *The Challenge*; Roberto Matta, *Eclosion*; Octavio Medellín, *The Hanged*.

Joel next turned his sights on Resistol. A venerable western hat company from Garland, Tex. that was bought by Levi Strauss in 1980, Resistol had bought Hat Corp. of America's brand names in 1972. But by the time Joel became interested, Resistol was losing millions for Levi Strauss, which gladly sold it to Joel in 1985.

Joel used the same strategy at Resistol that he had used at Miller Brothers. He quickly cut Resistol's expenses (by \$5 million a year) and lifted Resistol's pretax earnings (to \$300,000 in the first year).

From Resistol, it was on to the best-known western hat maker: the bankrupt John B. Stetson Co., whose hat division Joel bought last December for \$13.5 million. Again Joel slashed administrative staff, from around 80 to under 20.

With AJD at the low end, Miller Brothers for the Sears and J.C. Penney middle market, and Resistol and Stetson for the high end of the western and dress hat markets, Joel now has all price points covered.

VaTex is turning out over 3 million hats a year. Note, however, that half of those are sold to the western market, which attracts only around 10% of the population. That means that VaTex has a great deal of market potential in the dress hat segment. That's where Joel intends to promote aggressively the Stetson name.

He has a long way to go in convincing haberdashers that men's dress hats are coming around again. Dress hat sales have yet to recover from their 1960s slump. Retailers are so reluctant to carry hats that Joel has to fight to win shelf space from shirt, tie and other men's apparel makers.

Sales of western hats, meanwhile, have been virtually flat since 1981, when the "urban cowboy" craze spurred by the John Travolta movie fizzled out. The oil glut, too, has hurt a lot of Joel's western hat customers. "Our core [western hat] market—Texas, Oklahoma, Louisiana—is an economic disaster," Joel says. "If it had been good, God knows what we'd have done."

So Joel has his work cut out if he is to persuade American men to buy dress hats as they once did. Can he do it? If so, how? Joel plans a fall advertising blitz in magazines like *People* and *Newsweek* and on Cable News Network. But VaTex, with expected hat and cap sales of over \$70 million this year, will be able to spend only \$1 million on promotion. That doesn't amount to many full-page ads.

Meanwhile, a debt clock is ticking. Joel borrowed heavily to make his ac-

quisitions. At \$57 million, VaTex' long-term debt is 92% of total capital. There is no immediate danger—pretax earnings currently cover interest on debt by a factor of close to two—but even a mild sales slowdown could change the picture dramatically.

"If the oil patch improves or we get a hot movie about cowboys, the market could go to \$100 million, and Mr. Joel will be a very successful individual," says Roy Langenberg, president

of the Washington, Mo.-based Langenberg Hat Co. But he adds: "As the market has contracted, some people have been too big [to be profitable]. Can that happen to Mr. Joel? If the business goes from \$75 million to \$35 million, I guarantee it will happen."

Irving Joel does not disagree, but he is sure the fashion cycle will turn to his advantage. "It's a crapshoot," he agrees cheerfully, "but I like the odds."

The Up & Comers

Merchandiser

John Mackey and his Whole Foods Market chain is another vivid case of how a young man who wanted to do good has created a business that is doing very well.

Good food, great margins

By Toni Mack

LOOKING LIKE ONE of the Beatles circa their *Sgt. Pepper's Lonely Hearts Club Band* album, John Mackey, 35, wears his longish hair in tousled brown curls and sports a mustache.

He tends to show up for work in T shirt and hiking shorts. He likens the structure of his company, Austin-based Whole Foods Market, to the United Federation of Planets in *Star Trek* (a confederation of largely autonomous planets/stores). He says things

Photo: Kallistos Gamma Liaison



Whole Foods Market Chief Executive John Mackey, atop an Austin store
"I was a hippie. But I'd had the natural foods conversion."

like, "We're trying to build a company based on trust and love."

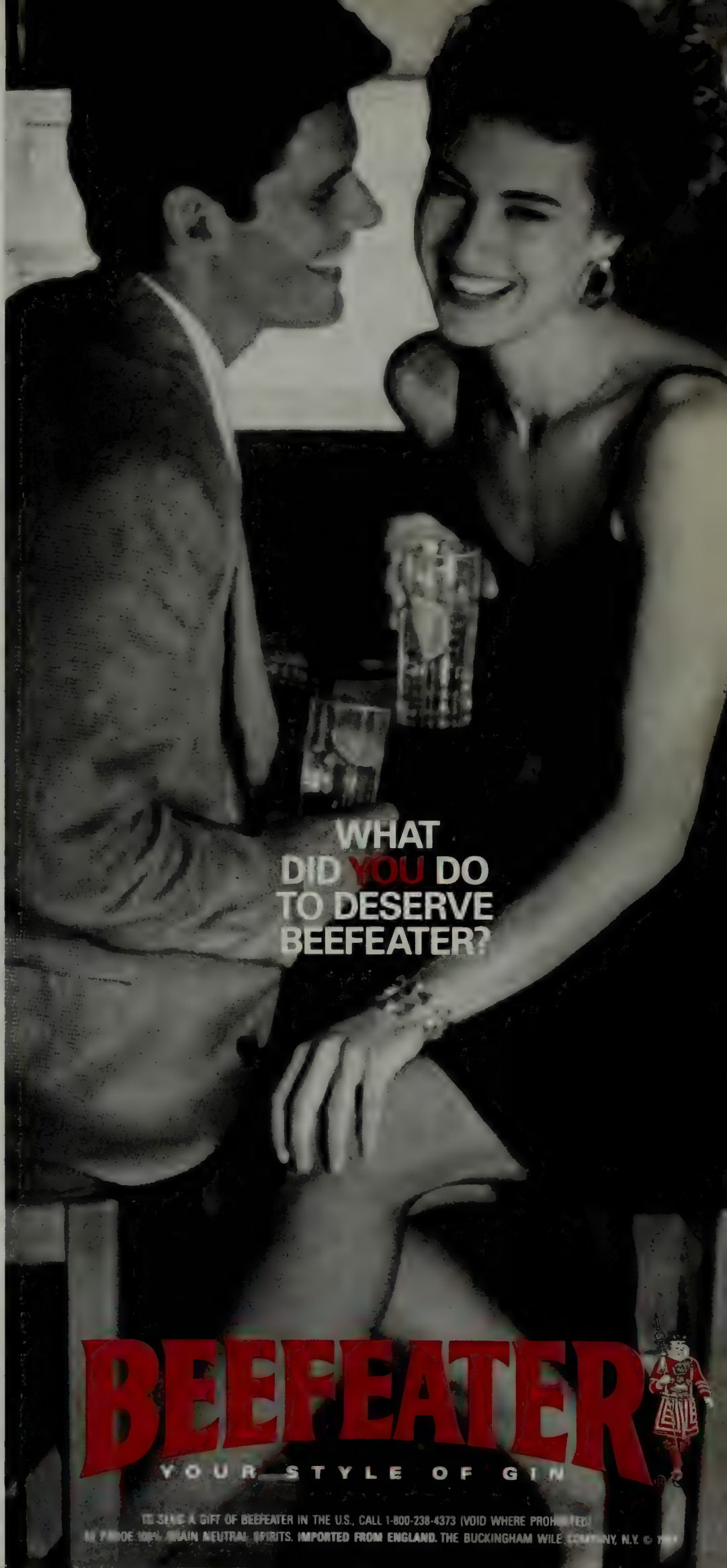
It is easy to dismiss Mackey as a flake. Easy and wrong. Ask the venture capitalists who have fed him \$4.5 million over the last few months. Like Celestial Seasonings, the herbal tea company now owned by Kraft, Mackey's Whole Foods started as a hippie outfit with a mission—to get people to eat organic food—and stumbled upon a big, fast-growing market. Mackey now has six Whole Foods grocery stores, which offer such products as free-range, hormoneless chickens, fresh bran muffins, organically grown kumquats and packaged goods with such brand names as Hain Naturals and Health Valley.

The items are expensive. Free-range fryer chickens, for example, go for \$1.39 to \$1.99 a pound at the Whole Foods Market in Houston, compared with 89 cents a pound for a Holly Farms fryer at the Kroger store a few blocks away. But Mackey has discovered that lots of folks are willing to pay large sums of money to feel both virtuous and self-indulgent at the same time.

"I don't even pay any attention to what the prices are," says George Hrdlicka, 57, a Houston attorney who shops with his wife, Judy, 48, after they jog and work out at their local health club on Sunday mornings. Like many patrons, they drive several miles, past other grocery stores, to shop at Whole Foods.

Those high-priced items produced an estimated \$45 million in sales for Whole Foods Market in the fiscal year that ended in September. With the addition of a Palo Alto store and another in a Dallas suburb, fiscal 1989 sales are projected at \$65 million. Mackey won't disclose profits, but his stated goal is a net margin of 3% to 6%—a fat improvement over the 1.3% to 1.4% net margins that supermarkets usually average. Says Richard Smith of Houston's First Interstate Capital Corp., part of First Interstate Bancorp, "John couples social concern with a keen understanding of profitability." First Interstate Capital has invested \$2 million in Whole Foods Market.

Mackey, who left the University of Texas a few credits short of his philosophy degree, is an example of what one sees over and over in successful small businesses: a young man who got into business not to make a lot of money, but as a way of expressing deeper personal concerns—and to enjoy himself. "I was a hippie," Mackey happily acknowledges. "I just hung out and played basketball. But I'd had



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the natural foods conversion."

Eager to convert others, he coaxed \$45,000 out of family and friends and opened a small health food store called Safer Way in Austin in 1978. Two years later he merged it with another to form Whole Foods Market.

A natural foods store is considered large at 4,000 square feet. Today's Whole Foods markets range up to 20,000 square feet and carry some 10,000 items. "I've found that many people initially come to us for the gourmet products [pâté, radicchio, balsamic vinegar and the like] and then get interested in healthier eating," Mackey says.

It's hard to fault his merchandising sense. Organically grown produce is prominently marked, and low-fat, low-sodium, high-fiber foods are tagged "Heart's Delight." Each store has an information booth, and employees are well versed in their area of the store. Mackey's store clerks, usually health food nuts themselves, frequently lead health-conscious shoppers on tours of the stores' products. "Customers find out that the people who work here aren't nearly as weird as they might look," says Mackey. A bimonthly in-house publication called *Highlights* educates patrons about unfamiliar products like Herbal Animal's Insect Shoo and Lundberg Tasty Brown Rice Cakes.

In effect, Mackey hopes to do to the organic food business what Safeway and A&P did to the greengrocery business a half-century ago. "The organic market is littered with inefficiencies," he says. So he formed his own wholesale operation to buy produce in bulk and sell to his and other stores. This helps Mackey cut the high prices on organically grown foods. Organic Red Delicious apples sell for 79 cents to 85 cents a pound in season at Whole Foods, versus 99 cents at other health food stores. Plain Red Delicious apples in ordinary stores might go for 69 cents.

Mackey has made his share of mistakes. In 1985 he opened a restaurant that cost Whole Foods \$880,000 before it closed, and he built a second Austin store so close to the first that it cannibalized sales. But he's learning. The new Dallas store is a spacious 10 miles from the other.

Venture capitalists now own 34% of the company. Mackey has 14%, and his father, William—who was chief executive of Lifemark Corp. until American Medical International bought it four years ago—owns 13%. "I talk to him several times a month," says the son. "The venture guys say, 'Well, maybe John inherited the good

How to blow people away

Ziggy Kaluzny/Gamma Liaison



The produce team at an Austin Whole Foods market
Beach balls, goat's milk and team spirit.

To the casual eye, it's obvious that Whole Foods Market's employees are happy and well motivated. Thank Chief Executive John Mackey's team scheme. Each store department—produce, meat and seafood, and so on—has a team of workers. While buying at big chains is centralized, at Whole Foods each team does its own buying, on the theory that team members know their customers best. That's good for morale—and profits. Mackey awards bonuses based on gross margins.

Teamwork boosts productivity, too. If a team spends less than its labor budget, members get to keep the savings as bonuses. Whole Foods saves nothing on wages but much on such indirect costs as benefits, since higher productivity means fewer employees. Teams weed out the lazier workers by voting on whether to keep new employees after a probation period of four to six weeks.

FORBES sat in on a 7 a.m. monthly meeting of the Houston Whole

Foods Market's grocery team, covering dairy items, bulk foods like granola and most packaged goods. About 15 team members were dressed as for work—i.e., mostly in jeans and shorts. One member brought his 2½-year-old daughter. For a time, members tossed a beach ball around. After working on specific problems, such as a dearth of goat's milk, the team discussed general concerns. Herewith, a few comments. (Note: No one knew the visitor was a reporter.)

"Everybody should be looking out for the whole store. We're all responsible for the entire store."

"You've just got to have that attitude."

"If you start something, finish it. There's nothing worse than things being done half-assed."

"If we got more efficient, the store would look better, our bonuses would be better, and we'd just feel better."

"If people have a problem with a product, open it up and let 'em try it. That blows people away."—T.M.

genes.'" Other early investors and employees own the rest of Whole Foods Market.

Mackey has just sent a team of 20 to develop a California division of four or five outlets, starting with the Palo Alto store. He wants to top \$100 million in sales in two to three years, when he hopes to take Whole Foods public. By 1995 he'd like to have 30 to

40 stores.

"My greatest fear," says Mackey the businessman, "is that the market will grow so fast that the major players [big chains like Kroger and Safeway] will step in." But then, remembering the convictions that got him interested in organic eating in the first place, Mackey adds: "It's also my greatest hope." ■



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PHIL ZINKEWICZ

In the classic Hollywood western *High Noon*, Gary Cooper walks down the dusty streets of a small town ready to meet the unknown. Aware that he is facing fire from all sides, the strong, silent Cooper is forced to reevaluate his life in terms of his principles and priorities. His beautiful wife, played by Grace Kelly, is also undergoing an examination of conscience, measuring her Quaker beliefs against the survival of the man she loves. Neither faced choices so important before, and it is certain that, whatever decisions are reached, nothing will ever be quite the same. The U.S. insurance industry today is

also at a crossroads. Like Cooper, the industry is facing fire from different fronts while, at the same time, wrestling with necessary changes from within. Unlike Cooper, however, the industry cannot run for cover or depend on the talents of Hollywood writers to extricate it from internal dilemmas.

From the outside, the industry has become the target of various anti-industry factions. First, there is the legislative arena, in which congressional interest has focused once again on the validity of the insurance industry's McCarran-Ferguson Act antitrust exemption. This exemption, which is not a complete removal of the industry from antitrust scrutiny, but rather a limited one that allows for state supervision, has been attacked periodi-

cally in the past. However, never before has the cry for removal of the privilege been so loud.

There are moves on the federal front to modify the act or eliminate it completely, setting the stage for a scenario in which the state-by-state regulatory system would play only a minor role, if any, in monitoring the industry, with the federal government enjoying star status.

At the same time, insurers, both in the U.S. and overseas, are being bombarded with costly lawsuits, some forty in all, by 19 state attorneys general and various private parties, alleging that insurers, insurance brokers, reinsurers and even Lloyd's of London conspired to bring about the insurance availability and affordability crisis of 1984-85. These lawsuits



charge that the industry acted in concert to raise premiums, withdraw from specific coverages and force buyers of insurance to accept more restrictive "claims-made" commercial insurance policies as opposed to previously more liberal "occurrence" coverages.

The industry has responded, and some legislators and media representatives have observed, that the attorneys general's lawsuits might be politically motivated. The attorneys general participating have consistently argued against insurance industry calls for tort reform. New York State Senator John Dunne has said emphatically that the attorneys general made their move due to ignorance of the way the insurance industry operates and frustration at having spent taxpayers' dollars on an investigation that had no merit.

TAX CHANGES

The industry, in both property/casualty and life, also is facing serious tax problems as a result of the Tax Reform Act of 1986 and new congressional interest in removing advantageous tax treatment from certain interest-sensitive life products. The employee benefits arena is also facing changes as the result of tax reform.

DEVELOPMENTS FROM WITHIN

While all this is going on, the industry is re-examining its modus operandi, looking at new marketing methods and trying to learn from the mistakes it has made in the preceding 1984-85 period. The industry is also looking at the potential impact of the new corporate balance sheet and applying with changes in

the state-by-state workers' compensation system.

The end result of these developments is not easy to predict, but the consulting firm Arthur Andersen & Co. has taken a broad stab at it. The firm recently completed a survey of 150 executives from the life, health and property/casualty industry. This Delphi study was conducted jointly by Arthur Andersen and the Life Office Management Association (LOMA).

The study sums up the present condition of the insurance industry: "The 1980s have brought many changes to the insurance industry and have altered the face of the business as seldom in its history. The creation and dominance of radically new life products, extreme price competition in the property/casualty business, the entry of new competitors, the gradual erosion of regulatory barriers and the emergence of technology as a key element of competitive strategy are among the important changes in the past decade."

INSURANCE INDUSTRY CYCLICALITY

To understand the magnitude of that summation, it is necessary to take a relatively short trip back in time and look at what has happened to traditional insurance industry "cyclicality," the benchmark by which the industry's ups and downs have been measured. In the not-too-distant past, the property/casualty insurance industry's cyclical occurrences were as predictable as a planet's orbital cycle. Without trying to solve the age-old "chicken-and-egg" enigma, insurance industry cyclicality followed the three-year-on and three-year-off formula.

In other words, it could be expected that three profitable years for the industry, during which insurers were anxious to compete for business so that they could invest premium dollars, were followed by three years of losses, during which the industry paid for its prior competitiveness when it intentionally underpriced its products.

Within that comfortable cocoon of cyclicality, the industry functioned for years, able to price its products and services in such a way that underwriting losses were never severe enough to interfere with bottom-line black ink when coupled with investment income profits.

However, in the beginning of the 1980s the insurance industry's planetary cycle began to spin out of orbit.

For one thing, the industry was coming off profitable years of the late 1970s, a

time at which the traditional cycle would ordinarily lead insurers to compete aggressively. For another thing, the self-insurance movement, which received a

AMERICAN INSURANCE ASSOCIATION

By Robert E. Vagley
President

The "trustbuster" is a much revered American icon, but few who claim that title today merit the same reverence. Certainly not those who are attacking the insurance industry's antitrust exemption.

Created by the McCarran-Ferguson Act of 1945, the industry's exemption nurtures rather than stifles competition. The act allows certain limited collective activities that enable small companies to compete successfully with huge institutions and make it possible for the industry to serve otherwise hard-to-insure markets, such as nuclear liability. By specifically disallowing boycott, coercion or intimidation, McCarran protects consumers against abuse.

There is simply no trust to bust. The standard tests of competitiveness prove that, if anything, the industry is too competitive. But those who want to repeal or cripple McCarran are not concerned with competition or the insurance buyer. The "trustbuster" hook is there only to lure public support.

Attractive as that lure is, if the public bites, consumers will be the ones to suffer. Small companies unable to compete will disappear. Moreover, now permissible pooling arrangements that serve difficult markets may vanish as well. In time, a handful of megacompanies will dominate the marketplace instead of the thousands that now vie for business. That amounts to fewer—not more—options in price and product for insurance buyers. And the political difficulty of completely replacing state regulation with federal all but guarantees more costly dual regulation and less responsiveness to consumers.

Insurance buyers, whether individuals or businesses, have the most important stake in the outcome of the McCarran debate. In this instance, following the lead of self-styled Teddy Roosevelt could be more like charging with the Light Brigade than with the Rough Riders.



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tremendous impetus during an industry down-cycle in the mid-seventies, provided an even greater incentive for insurers to compete.

However, another element caused the normal and expected competition to intensify even more. The surge in interest rates during the early eighties caused even the most cautious of insurers to throw sound underwriting approaches to the wind. Cash-flow underwriting, with little regard for potential losses, became the order of the day.

All the rules of the game were abandoned, and the cycle was broken for the first time in the industry's history. A cycle, that should have turned at the first sign of industry losses in 1981 and 1982 bringing about rate increases, stretched into 1982, 1983 and part of 1984, during which time rates remained low and coverages generous. The solons of the insurance society predicted doom, but even as they did, they continued to underprice their products, first to take advantage of investment earnings and second to avoid losing market share.



THE TORT-LIABILITY ISSUE

In the end of 1984, the property/casualty insurance industry realized that it had turned a corner. Interest rates dropped, leaving insurers to look to underwriting earnings to develop profits. However, having underpriced their products for so long, the insurers needed rate increases as severe as cuts had been during the prolonged soft market. While insurance buyers, regulators and legislators were not, understandably enough, anxious to question the bargains of the early-eighties, they were incensed over the rapid rate rises of 1984 and 1985. The industry had painted itself into a corner.

Moreover, the tort-liability issue be-

gan to attract attention from the national news media, and the insurance industry, once virtually ignored by the national dailies and television, became the center of public attention at a time when it was loathe to play that role.

The insurance industry seized upon the liberalities of the civil justice system to defend the unavailability and unaffordability of insurance during 1984-85. In fact it was not a new issue.

A decade earlier, during the tight market of 1974-75, the industry blamed the evolution of the tort system for rises in product liability premiums and malpractice insurance coverages. At that time, the industry warned that a civil justice system that allowed easy access to the courts for even the most frivolous injury claims would eventually mean insureds paying through increased premiums for "social" injustices. But later in

INSURANCE INFORMATION INSTITUTE

By Mechlin D. Moore,
President

The property/casualty insurance industry often is referred to as a pass-through mechanism—a system through which the costs of accidents and other perils are passed on to those who pay the premiums.

This is a short-sighted view. As important as passing through loss costs are the industry's efforts to prevent or contain losses. These efforts help to keep premiums lower—but of greater benefit to society, they save lives, reduce injuries and conserve property.

In addition, most of the industry's cash held in trust for policyholders and claimants is invested in municipal bonds, which support schools, roads, ports and scores of other community projects.

However, the industry's critical contribution has been saving lives and property.

Insurance prices alone create safety incentives. For example, workers' compensation prices may vary according to the safety record of a specific business and are always based on the claim record of the type of business. Auto owners'

premium payments vary according to factors known to lead to accidents.

Even before coverage is provided, insurers may require safety shortcomings to be remedied, if, for example, an inspection of a large business reveals improper storage of flammables or toxic chemicals. This kind of experience is shared as industry experts sit on national committees to establish safety standards for chemicals, industrial hygiene, boilers, marine vessels and scores of other products and procedures. Insurers have already led the way in developing building codes that have dramatically reduced fire risks.

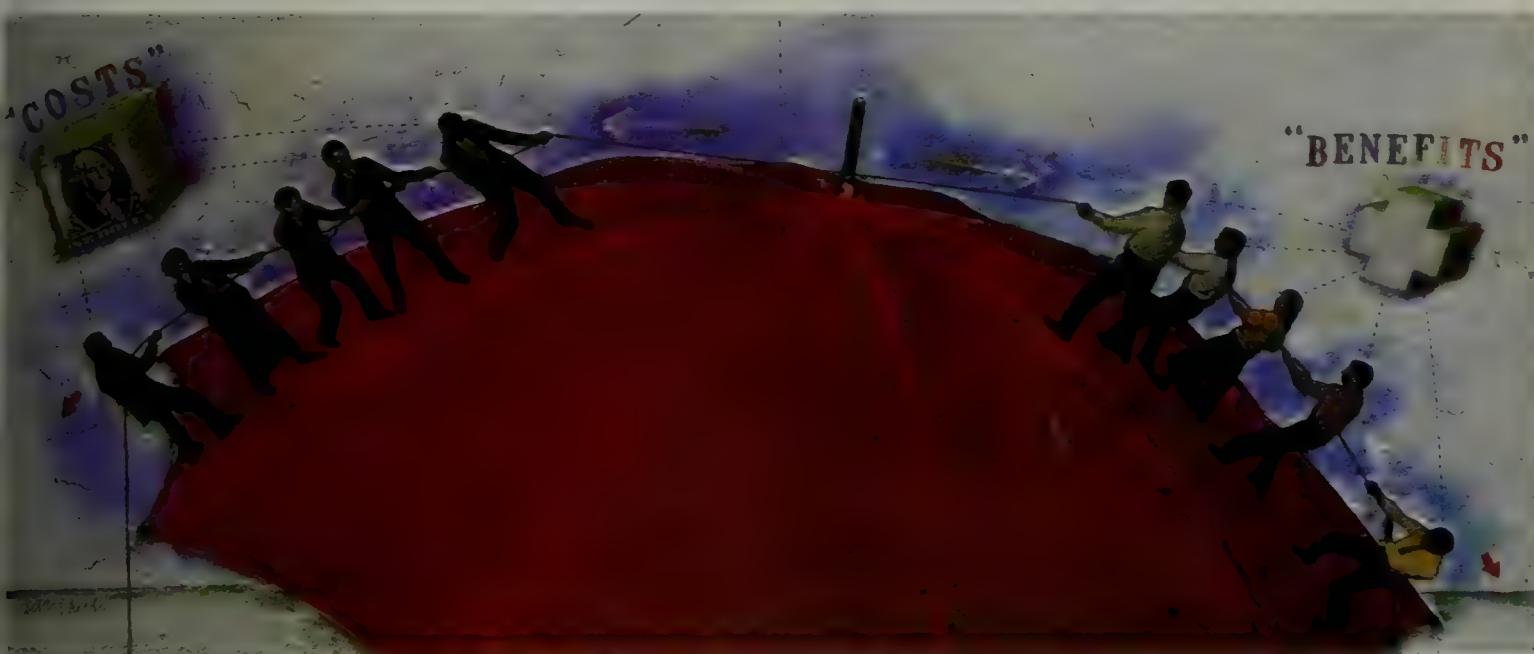
The industry also sponsors one organization that does nothing but promote highway safety, while others work with police to combat auto theft, arson and fraud. And insurers have gone to court to fight for airbags in cars and to state capitals to promote stronger drunk driving laws.

Americans are safer today than ever before. However, much remains to be done—in the workplace, in fighting crime, in somehow convincing our youth to drive more carefully, in living safely with new machines, new chemicals and increasing population density.

As one former regulator observes, "Insurance covers the full gamut of society; therefore, the problems of society are basically the problems of insurance."

The insurance industry will continue to play a major role in helping to solve these problems.

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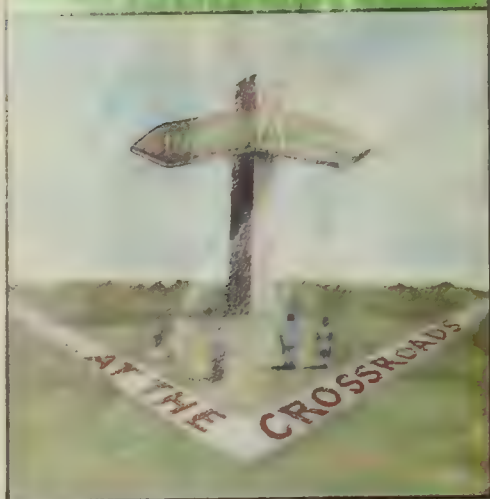
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the 1970s, when underwriting profits from other lines and the investment side began looking favorable, the industry seemed to forget its own admonitions.

In 1984, however, the industry again heard its own message. Not only had interest rates dropped and inflation affected its bottom-line results, but insurers were also faced with myriad claims stemming from lawsuits from every front. Not only in product liability and malpractice, but also claims, huge settlements and awards came in the area of directors' and officers' coverage, pollution incidents, municipal lawsuits and asbestos injuries.

From the view of insurance buyers, the industry had gone haywire. At the meeting of the National Association of Insurance Commissioners, an association of state regulators, the president of the Risk and Insurance Management Society (RIMS), Richard C. Heydinger, who is also risk management director for Hallmark Cards in Kansas City, participated in a special discussion on buyers' attitudes towards insurers. He says that the "rough handling" corporate insurance buyers received from the insurance industry in the last hard cycle had resulted in a new determination by buyers not to be tied to the unpredictable fluctuations in the insurance industry's underwriting swings.

Despite the industry's drive for stability, it has already spawned an area of new competition, which in itself threatens that stability. The 1984-85 insurance crisis gave rise to new types of alternative risk mechanisms.

New captive insurance companies are being formed, not just in the offshore areas, but onshore as well, as states begin to relax laws regarding the formation of these self-insurance vehicles. In addition, Congress passed the milestone Risk Retention Act of 1986, which provided guidelines for the creation of risk retention groups and purchasing groups. These groups make buyers of insurance less dependent upon the vagaries of the insurance industry's cycles.

Corporate and municipal risk buyers were quick to take advantage of these mechanisms. As a result, when the market began to soften in 1986 and 1987, insurers found that those sheep that were driven from the fold were reluctant to rejoin the flock.

The truth of these developments can

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be seen clearly in the RIMS survey, which showed:

- Buyers who used alternative risk financing in 1986 purchased two to three times the limits of those who did not;
- While retentions rose in response to premium increases and lack of availability, they have not decreased as premiums began to decrease, and insurance became more available, and
- Market conditions that made it difficult for some industry groups to purchase coverage served to encourage them to explore group alternatives—removing them at least temporarily from the group of potential buyers.

John P. Folsom, J.D., CPCU, president of Fred S. James of California, San Francisco office, and 1988 president of Society of CPCU, puts it this way: "The shortened insurance industry's cycles and, therefore, the unpredictability of insurance will exacerbate the movement away from traditional markets, especially for casualty risks. Yet many of these 'alternative' insurance mechanisms such as captives, are not being uniformly subject to the same rules and regulations that govern traditional insurers. This raises concerns about the safety and stability of these alternative mechanisms. Business insurance consumers must exercise caution to be assured that such mechanisms are actuarially sound and prudently structured financially."

Primary insurers and reinsurers have accepted the permanence of alternative risk markets. "In a great many cases they are a positive development for the insurance industry," says William H. Bolinder, president and chief executive officer of Zurich American Insurance Group. "Sometimes they can absorb transactional risks, which can be assumed by the customer, thus freeing up capital for insurers to write more business. I'm not all that concerned about loss of premium to the insurance industry. Risk retention groups provide the smaller

commercial insured that cannot form a captive the opportunity of taking advantage of self-insurance."

American Re-Insurance Co. has even formed a subsidiary called AM-RE Managers Inc. for the sole purpose of providing reinsurance coverages and services captives and risk retention groups.

Says Ed Jobe, president and chief executive officer of American Re: "The self insurance trend is continuing even in the softening market. We can offer a trading relationship to self-insureds who have, in the past, had problems with opportunistic sellers of insurance—those insurers who are in and out of markets.

"The captives and risk retention groups will need not only reinsurance, but also services and expertise in areas such as claims, litigation, EDP and underwriting.

TAX REFORM ACT

While the insurance industry is wrestling with federal intervention, a softening marketplace where it is forced to play by buyers' rules and new competition from alternative risk mechanisms, it is also facing problems stemming from the 1986 Tax Reform Act. The impact of that tax reform will be felt by insurers in a number of ways. Bolinder of Zurich American

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says that the industry still has not gotten a handle on the ultimate implications of the act.

An internal memo from Johnson & Higgins describes the impact of the tax reform legislation: "Under the Tax Reform Act, the insurance industry was one of several industries singled out for special treatment by the law. On balance, property/casualty insurers will be faced with higher taxes. On the underwriting side, total taxable income is constant over the life of these policies, but the timing differs: Premiums are earned faster, and losses are incurred more slowly. On the investment side, more income is subject to taxation. Thus in total, income increases, and it is realized earlier." The memo lists the major points of the Tax Reform Act that affect the insurance industry as follows:

Discounting of loss reserves changes; reduction of the corporate tax rates; the inclusion of the unearned premium reserve in taxable income and the taxation of previously tax-exempt investment income.

EMPLOYEE BENEFITS

Tax uncertainties are also confronting the employee benefits industry, ac-

cording to John D. Moynahan, Jr., executive vice president of Metropolitan Life Insurance Co. "Congress is now wrestling with whether or not and to what extent employee benefits should be taxed, and depending upon which way the shoe drops, there could be profound implications for the industry, for employers and for organized labor," he says.

The Metropolitan executive also says that one concern facing the industry is whether there will be legislation mandating certain employee benefits to be paid for by employers, an "off-budget" way of dealing with social concerns.

"Politicians often dream of proposing social legislation that does good but that does not increase the government's budget. The risk is that such legislation could play havoc with the health care industry. That's not to say that the proposals are bad, but they must be paid for either through higher taxes or through higher costs employers pay for benefits," says Moynahan.

The situation is even more important, according to Harold D. McRae, vice president and chief operating officer of MoneyTrac, a personal financial management system from The Travelers Corp. "There's constant pressure for additional employee benefits coupled with the need to manage benefit costs. The future of fi-

nancial services is at the workplace. It's the most logical source, considering the fact that an employee's paycheck is the primary source of a household's income—connecting financial services to the workplace is not only practical but convenient."

HEALTH CARE COSTS

The issue of health care costs is one that employers around the country are finding increasingly difficult to deal with, according to Moynahan. The prob-



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On June 26, 1986, a company that provides gold and silver paint to chinaware manufacturers had a devastating fire. Extensive damage was done to its building, equipment and materials. Sure, the company was insured. But its insurance company did more than honor the policy.

1. They helped the business re-open quickly. Once on the scene, the claims adjuster assessed the damage and helped the owners figure out how to resume business as soon as possible.

2. They paid to erect a temporary building. Using provisions in the policy to pay for a pre-fab structure, the company was able to return to business almost as usual within two weeks.

3. They mailed a check right away. In fact, the paint company received its first check for \$100,000 less than five weeks after the fire.

4. They helped dig for gold. The insurance company found that a lot of gold used in the paint was scattered under the debris. They promptly authorized a reclamation firm to recover and clean over 150 ounces of gold at a cost far below the price of the precious metal.

5. They found a way to dispose of toxic wastes. The paint company might have had a hard time finding a reliable company for such specialized work, but the insurance company found a qualified company to dispose of toxic material.

6. They gave it a personal touch. Under the company's policy, the employees were surprised to learn that they would be reimbursed for their personal belongings lost in the fire.

7. They paid to inventory the damage. Most people don't realize that taking inventory of an accident's damages is another expense. But this too was covered under the policy.

8. They took out the garbage. Under the company's policy, debris removal was covered down to the last cinder.

9. They paid the claims on time. A check arrived in September and a final check arrived in December, only five months after the fire.

In the end, the insurance company did one more thing. They wrote another policy. According to the company's owner, that second policy was his best "vote of confidence" in his insurance company.

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lem goes beyond the costs of health care for employees, to the potential liability employers face in light of longer-living retirees.

"The GNP shows that health care costs are increasing one-and-a-half times the regular rate of inflation," he says. "But employers are seeing rate hikes going up 18% to 20%. We believe that employers should make greater use of tools that are available to them to reduce health care costs. We believe they should identify and use the most efficient health care providers, that they should negotiate the best services at the best price for

their employees."

Moynahan says that Metropolitan believes that health maintenance organizations (HMOs) and preferred provider organizations (PPOs) offer the best route towards controlling health care costs.

James Stradtner and Peter deVos, both of Alex Brown & Sons, Inc. agree. They believe that the most successful healthcare providers of the future will be those that offer a combination of a managed care alternative, such as HMOs and PPOs, and traditional indemnity insurance.

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AIDS: MANY UNANSWERED QUESTIONS

One of the most pressing problems facing the insurance industry today is how the AIDS epidemic will affect future losses.

Standard & Poor's believes that insurance industry fundamentals will not deteriorate due to AIDS. Annual AIDS-related claims will remain under 4% of total individual life insurance claims through 1989, according to S&P.

A study by S&P indicates that continued improvements in the mortality trend among insureds who are not infected with the Human Immunodeficiency Virus (HIV) will partially offset future AIDS-related claims from business already in force. Also, life insurance companies will be able to reprice certain life policies and reduce returns to policyholders to reflect the expected moderate short-term increase in AIDS-related claims.

However, the insurance rating organization maintains it is not meaningful to predict long-term ratings implications of AIDS on the life insurance industry, given the wide range of projections for the spread of the disease beyond 1991.

John A. Fibiger, executive vice president of The New England agrees: "The real threat lies in the future. Where permissible, the company now routinely tests for AIDS exposure on life policies greater than \$100,000 and on lesser amounts where cause exists. Testing prohibitions where they exist have not prompted market withdrawals by us, but we are limiting the producers from whom we will accept applications in some jurisdictions."



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OVERALL OUTLOOK

Given all these developments, then—the precarious regulatory environment for the industry at large, the softening insurance market where competition increases, the rise in alternative risk mechanisms, the tax revolution and the

problems relating to health care—where will the insurance industry be heading in the coming years?

The Arthur Andersen-LOMA study maintains that competition will stiffen for insurance companies between now and 1995. Banks and investment firms will continue to be key competitors in areas involving such investment services as pensions and annuities. Large life/health companies see banks and investment firms as strong competitors in the individual life market as well, according to the study. The future role of banks and investment firms in the property/casualty insurance industry is as yet unclear, however.

Merger and acquisition activity will remain high, and it is likely that the market share of small companies will continue to diminish, says Arthur Andersen.

Segmenting target markets for pursuing new business, will continue to be a key strategy of insurers as the appeal of one-stop shopping begins to wear thin.

Changes in the competitive environment, flatter organization charts support-

ed by information technology and other factors will present managers with tough human resources challenges, according to the Arthur Andersen study. "Efforts will be undertaken to increase white collar productivity and lower costs. Changing products and technology also will spur need for higher expenditure in education and training." ■

DEDICATION

This insurance section is respectfully dedicated to Richard L. Doyle, who was instrumental in developing the theme and tenor of the supplement and except for his untimely death, would have authored the article. Mr. Zinkewicz used Mr. Doyle's notes and conversations in writing "Insurance at The Crossroads."

Mr. Zinkewicz has been an insurance journalist for nearly twenty years. He has written for a number of periodicals and is currently an editorial consultant with the *Insurance Advocate*, a weekly insurance trade publication, and editor of the *International Insurance Monitor*.

INDEPENDENT INSURANCE AGENTS OF AMERICA, INC.

By Lawrence E. Hite, AAI
President

In the coming months, two events could have a profound effect on your insurance program. One duty we, as Independent Insurance Agents, have is to stay abreast of changes in the marketplace to see that you, the consumer, continue to be well served.

First. The market is "softening"—becoming more price competitive. This means for the time being, it should be easier to obtain coverage, and premiums may be lower. However, remember that price should not be the sole criteria. Many companies that offered low prices in the last "soft market" were some of the first not to renew and worse some underpriced their product and the companies failed. This left many of our commercial insureds, many of our individual insureds, many of our mutual insureds their insurance with a company offering a product that was not to purchase product. I believe there will be

another "soft market" as severe as the last. There will be cycles, and we recommend that you not shop your insurance policies just to save a few dollars. A stable market should be your primary concern. Independent agents represent more than one company and can place your protection with companies that offer stability at a fair price.

Second: You need to be aware that Congress is considering the repeal of the McCarran-Ferguson Act, which provides limited antitrust exemptions to the insurance industry. This has been discussed elsewhere in this supplement, but I would be remiss if I did not warn you about the downside effect of such an action.

Repeal would produce a reduced supply of the insurance product, and fewer insurance companies competing for you as a customer, resulting in higher premiums. Consumer advocates are saying repeal would help the insurance buyer. Unfortunately, we feel they are misguided by the frustration they felt during the recent "hard market." That frustration should not lead us into a hasty mistake. Your independent agent will be happy to discuss McCarran-Ferguson with you so you can make a judgment and urge your congressional representative to do likewise.



Designed by November and Lawrence, Inc.,
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"Before you buy insurance, examine the evidence."

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Entrepreneurs

With TitanSports, Inc., wrestling promoter Vince McMahon has built a well-oiled marketing machine. Whoever thought wrestling would turn into this?

"We want to be like Disney"

By Christopher Palmeri

MONDAY MORNING, and another limousine pulls up to another mansion in exclusive Greenwich, Conn. This time, however, is not headed for Wall Street. It is headed for nearby Stamford, where its occupant, a strapping 6-foot-3 amateur bodybuilder, name of Vince McMahon, is building a serious business out of the least serious of sports—professional wrestling. The World Wrestling Federation, a subsidiary of TitanSports, which is wholly owned by McMahon, now spreads through three buildings in Stamford. It has already outgrown the office building he bought for it just two years ago.

The WWF owes its success to a simple—some say simply brilliant—marketing strategy conceived by Vince McMahon. Professional wrestling has always been popular with a particular kind of adult who enjoys watching 300-pounders toss one another around a ring in a carefully choreographed "contest," in which a Good Guy clobbers a Bad Guy and no one gets hurt. In the Forties it was an All-American trouncing a Nazi. In the Boesky-bashing climate of the late Eighties a nasty

piece of work called the Million Dollar Man is a popular Bad Guy. Whatever the fashion in heroes and villains, McMahon, like no one before him, figured out a way to leave behind

professional wrestling's origins in gamey gymnasiums and regularly put his shows in the same arenas where people take their kids to watch the Ice Capades or a traveling Sesame Street show—with television and product marketing blended into the package.

The last thing McMahon needs is any notion that professional wrestling is an athletic competition. "We are the wonderful hybrid of sports and entertainment," brags WWF's marketing director, Basil DeVito Jr. "When you walk into an arena that has WWF on the bill—the pictures, the show, the music—it's all part of a bigger goal to entertain you from the minute you walk in. We want to be like Disney."

The WWF sold \$80 million worth of tickets to live wrestling shows last year. Add that to merchandise sold at the shows, advertising sales on WWF television programs, videos and other sources of revenue, and you have a company grossing \$145 million. Retail sales of such things as wrestling lunch boxes and action figures account for another \$170 million; the 3% licensing fee that the WWF collects on this is just gravy to the bottom line. In all, FORBES estimates that the company had a cash flow last year of around \$19 million. "Live events are our business," says DeVito. "They have always been the mainstay and the lion's share of our business."

McMahon was born to the sport. His grandfather promoted boxing and professional wrestling events in the early 1900s. McMahon's father took over in the 1950s and led the World Wrestling Federation at a time when promoters operated in regions with well-defined boundaries. The WWF controlled the Northeast, including New York City. Vincent, now in his early 40s, joined the company in 1968 with no scruples about invading other territories; in 1982 he bought out his father. Then he began applying pressure in earnest.

McMahon declined to be interviewed, but he renders a



Vince McMahon, with wrestler Jesse Ventura
"I do my own thinking, got a lot of big plans."





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(Required by 39 U.S.C. 3685)

- 1A. Title of publication: FORBES.
- 1B. Publication No. 156914.
- 2 Date of Filing: Sept. 26, 1988.
- 3 Frequency of issue: Biweekly, except weekly during two weeks in April, and two weeks in October.
- 3A. No. of issues published annually: 28.
- 3B. Annual subscription price: \$48.00.
4. Location of known office of publication: 60 Fifth Avenue, New York, N.Y. 10011.
5. Location of the headquarters or general business offices of the publishers: 60 Fifth Avenue, New York, N.Y. 10011.
6. Names and complete addresses of Publisher, Editor, and Managing Editor. Publisher: James J. Dunn, 60 Fifth Avenue, New York, N.Y. 10011. Editor: James W. Michaels, 60 Fifth Avenue, New York, N.Y. 10011. Managing Editor: Sheldon Zalaznick, 60 Fifth Avenue, New York, N.Y. 10011.
7. Owner: Malcolm S. Forbes, 60 Fifth Avenue, New York, N.Y. 10011. Malcolm S. Forbes, Jr. 60 Fifth Avenue, New York, N.Y. 10011. Christopher Forbes, 60 Fifth Avenue, New York, N.Y. 10011. Robert L. Forbes, 60 Fifth Avenue, New York, N.Y. 10011. Timothy C. Forbes, 60 Fifth Avenue, New York, N.Y. 10011.
8. Known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities: None.
9. Not Applicable.
10. Extent and Nature of Circulation

	Average	
	No.	Actual
	Copies	No
	Each	Copies
	Issue	of Single
	During	Issue
	Pre-	Published
	ceding	Nearest
	12	to Filing
	Months	Date
A Total No. Copies Printed (Net Press Run)	856,826	858,050
B. Paid Circulation		
1. Sales through Dealers and Carriers, Street Vendors and Counter Sales	36,658	30,000
2 Mail Subscriptions	704,750	709,190
C. Total Paid Circulation (Sum of 10B1 and 10B2)	741,408	739,190
D. Free Distribution by Mail, Carrier or Other Means, Samples, Complimentary, and Other		
Free Copies	63,873	68,156
E. Total Distribution (Sum of C and D)	805,281	807,346
F. Copies Not Distributed		
1. Office Use, Left Over, Unaccounted, Spoiled After Printing	5,851	2,614
2. Returns From News Agents	45,694	48,090
G. Total (Sum of E and F)	856,826	858,050

I certify that the statements made by me above are true and complete.

LEONARD H. ABLOH
Executive Vice President

persuasive account of what drives him in a song he sings on *Piledriver*, one of two albums the WWF has released:

They never understood the kind of man I am.

I do my own thinking, got a lot of big plans.

I'm a man running wild, heading for the top,

Never slowing down, never going to stop.

Along the way you're going to see a lot of men drop.

©Stephanie Music

Blithely ignoring wrestling's former boundaries, McMahon stole stars from other promoters and bought time on local TV stations to air his wrestling shows. WWF events are now staged in 48 states and 7 countries year-round.

McMahon spent last summer working on an action-adventure movie he is producing independently. He chose to film in Atlanta, where promoter Jim Crockett has a satellite office. He cast Hulk Hogan, wrestling's biggest star, to play a wrestler named Rip Rohrem in the film. He had lured Hulk away from another promoter in Minneapolis five years ago to wrestle for the WWF. Says Crockett, now the nation's second-biggest wrestling promoter, without rancor: "Six or seven years ago there were 26 active and successful wrestling promoters in the U.S. Right now, I consider Vince and I the only active and successful left."

McMahon obviously thinks he has all the leverage he needs to stay on top. Many of the 80 wrestlers WWF employs have to think that they now hold the most lucrative jobs they'll ever find. So, dealing with mercurial stars, however vexing it is elsewhere in show biz, is not much of a trial at WWF. In 1984 the WWF fired a wrestler who hit ABC newsman John Stossel after the reporter asked him if wrestling matches were fake. Less than two years ago one of the WWF's biggest stars, the Iron Sheik, found himself suspended very soon after being picked up for cocaine possession in New Jersey. The charges were later dropped.

McMahon personally controls all of what the consumer sees of the WWF, including the production of magazines, programs, posters, videos and records featuring WWF stars and events. The WWF produces five television shows internally—three syndicated nationally, two offered to the USA Network—that are tailor-made to promote shows in local markets.

McMahon used to pay TV stations to air his programs; now they play his shows at no charge and take a piece of advertising revenues generated by WWF's sales force. For a 30-second spot on a WWF wrestling show, advertisers like Hostess, Mars and the National Dairy Association will sometimes pay half of what they would for a sitcom delivering the same number of bodies. But the WWF does all right over and above the ad revenues—the TV exposure definitely helps build the live gate.

How long the good times will roll for WWF is hard to say, but for now the going is still good. The company has consistently had one of the top television shows in syndication. It has four of the top-selling sports videos (beating even Jane Fonda), and last year's *Wrestlemania III* extravaganza

"Before you and I are old and gray," says DeVito "the WWF will have played every kind of venue everywhere."

set an attendance record for any indoor event at the 90,000-seat Silverdome in Pontiac, Mich. The WWF now produces foreign-language editions of its television shows, some of which coincide with newly scheduled events overseas.

Pay-per-view cable may also hold promise for McMahon's WWF. This year's *Wrestlemania IV* was held at the much smaller Trump Plaza but grossed a record \$30 million thanks to 1 million pay-TV fans who paid \$1 per household. The WWF is strengthening its leadership in pay-per-view by diversifying. McMahon recently acquired the rights to broadcast a Sugar Ray Leonard fight this November. "Before you and I are old and gray," says DeVito, "the WWF will have played every kind of venue everywhere."

Vince McMahon is now easily a centimillionaire—the WWF alone is worth some \$100 million, say experts in the entertainment industry. Some of the same experts think that, in the WWF's hands, wrestling has a shot at becoming a staple in America's entertainment diet. "They've got the secrets as to the product and the characters," says Jon Findley, program director at Fox' WNYW-TV in New York, which carries two of WWF's shows. "I really think there is some longevity to it because they are handling it so well." Six years ago, would anyone have believed he was talking about professional wrestling? ■

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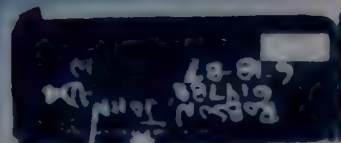
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Marketing

Edited by Jeffrey A. Trachtenberg

Peugeot is little more than a trace element in the U.S. car market. The company is betting \$50 million that now the time is right to change all that.

Riding the crest of the raves



Pascal Henault

LARRY MCGOWAN/WHEELER PICTURES

U.S. market share is going to be difficult, but it is never too late."

By Steve Kichen

THE WAY TOP MARKETERS at Peugeot see it, they have never had a better chance to crack the crucial U.S. market. Their new Peugeot 405, named Car of the Year in Europe, is selling even faster than it is coming off the assembly line. Reviews from the U.S. trade press for the car, a smart-looking, well-appointed, front-wheel-drive compact sedan, are also dazzling. "From just about every standpoint," gushed *Car & Driver* after test-driving it, "the 405 lived up to its worldwide notices."

Riding the crest of those raves, Peugeot has launched a \$50 million advertising and marketing campaign now breaking on television and in magazines for its models 405 and 505. For competitors like Toyota, which last year spent an estimated \$193 million on advertising, that kind of money is hardly a menace. But, for Peugeot, \$50 million is serious money indeed, amounting to at least a third of its estimated U.S. sales last year.

Peugeot at present is little more than a trace element in the U.S. market. In the last 13 years, it has delivered only 170,000 automobiles in total in the U.S., about 113 days' production at, say, Honda's Marysville, Ohio, plant alone. Last year the company sold only 9,300 cars here. "To boost U.S. market share is going to be difficult, but it is never too late," says Pascal Henault, president of Peugeot Motors of America since 1985. Henault stepped in when U.S. dealers, frustrated with the mix of the cars they were being sent and with Peugeot's sluggish marketing efforts, helped force the resignation of then president Pierre Lemaire.

Henault must reestablish the Peugeot brand name despite formidable problems. He has only 250 dealers nationwide, which means that getting parts and service has been difficult. That also helps explain why Peugeot has consistently ranked below average in the widely publicized customer satisfaction surveys conducted by



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Peugeot 405 is a true sports sedan. It's got the look, the feel, the performance of a sports car. And it's got the comfort, the safety, the reliability of a family car. It's the only car that's got it all. And it's got the Peugeot 405 logo on the front. So you'll know it's the real thing.

PEUGEOT

A print ad for the new Peugeot 405
You'd never know it was French.

J.D. Power & Associates. Equally discouraging, only 27% of Peugeot owners say they would buy Peugeot cars again. In contrast, 79% of Honda customers say they are quite happy with their cars and 49% say they would buy one again.

Henault, however, is steering the 405 toward a niche in the market that, he says, no other European car is filling. "Whereas BMW, Mercedes and Volvo are moving upscale to counter the decline in the dollar, we are doing the reverse," says Henault. He thinks that the basic 405's interior finish and styling make it a plausible alternative to a BMW 325 or a Mercedes 190, at a Toyota or Honda price—roughly \$14,500. At that price, it must also compete with Toyota's Camry, Mazda's 626 and Honda's Accord. He has a higher-performance model, the 405 M16, priced at \$20,500, boasting a 16-valve, 4-cylinder engine rated at 150hp, infrared remote control door locking, leather seats and a moonroof, to throw against the BMW 325. "Our customers care less about status and how people perceive them," says Henault. Translation: Peugeot's U.S. buyers are determined to buy European but they can't afford to spend \$25,000 or more.

Peugeot's latest ad campaign makes no mention of its French origin, emphasizing instead its "European" awards. Its agency is HDM-New York, which took the Peugeot account from Ogilvy & Mather in 1986. HDM's first campaign did stress French engineering, spotlighting the car's connection to the supersonic Concorde. For example, and high-

ly, the 405's 16-valve engine was evidently un-

decided to downplay the Frenchness of our car," concedes Jean Philippe Fournier, national marketing manager for Peugeot.

The new print ads position the 405 as an affordable sports sedan. The television commercials hit the European Car of the Year theme hard and also point to Peugeot's success in Africa, where only extremely rugged and reliable cars survive.

Peugeot has also recently complet-

ed a direct mailing to more than million households that report incomes over \$40,000 annually and are situated within a 15-mile radius of Peugeot dealer.

Another mailing the company is considering would offer \$10 to anybody willing to test-drive the new car. Ten bucks? In its darkest days, Chrysler offered \$50 to people who test-drove a new Chrysler, provided they ultimately bought a new car from Chrysler or a competitor. But Peugeot figures that \$10 might be just enough to pique the curiosity of these potential customers.

Peugeot is not ignoring its service problems. Henault says that all necessary training and parts deliveries were already in place before the first 405s were delivered to dealers here last August. "We have 180,000 square feet of warehouses in the country," he says. "If a dealer orders a part before 2 in the afternoon, he can have the part by 10:30 the next morning."

Now it's the marketers' turn, and more than \$50 million is riding on the outcome. Says Maryann Keller, auto analyst at Furman Selz Mager Dietz & Birney: "The 405 made them very profitable in Europe, and if they want to be a global carmaker, they've got to come to this country and make a stand." ■

If you thought that waterbeds went out with Nehru jackets, look again. They have become a \$1-billion-plus market today, and big names have jumped in.

No joke

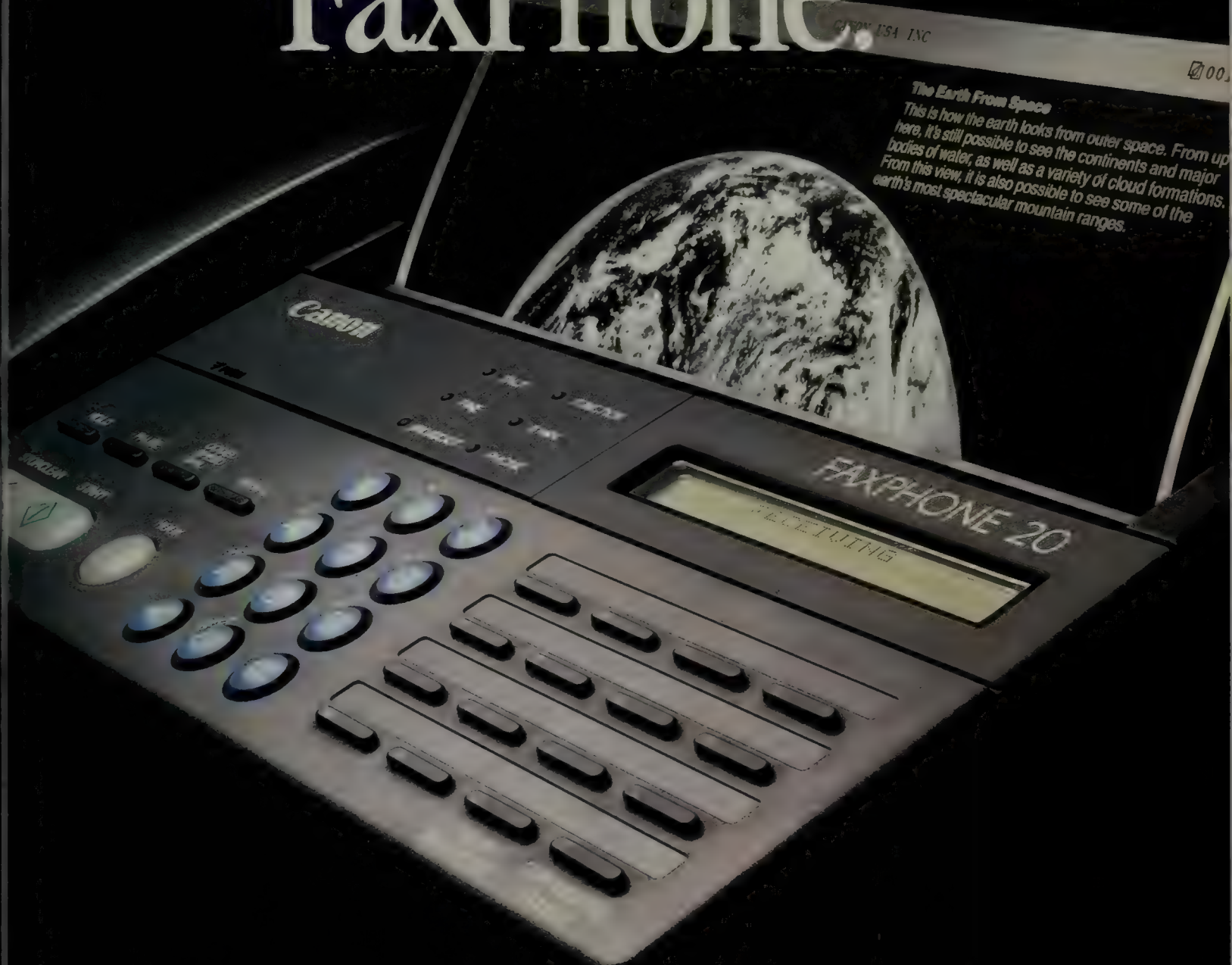
**By Lisa Gubernick
 with Julie Schlax**

WATERBEDS SOLD steadily, though slowly, in the late 1960s and early 1970s, mainly to hippies and faddists and occasionally to members of the middle class shyly hoping to add a measured amount of spice to their love life.

They were pretty much an industry joke, and no wonder.

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The customers, too, look pretty conventional—mainly white-collar workers earning \$25,000 or more a year and usually, but not necessarily, under the age of 40. Certainly no one would mistake William Parke, a 48-year-old vice president of sales for seven-radio-station Philadelphia-based TK Communications, for an aging flower child. "I'm a Republican, a real button-down kind of guy," he says. No matter. In the bedroom of Parke's apartment is a nine-month-old waterbed. "I wouldn't buy a conventional mattress again," he says, "It's relaxing and better for your posture. In the winter the heater makes it warm without a lot of blankets, and in the summer I turn the temperature down and it stays cool."

Some orthopedists say waterbeds which distribute the body's weight evenly, can relieve chronic back pain. Back problems, in fact, are the main reason people buy their first waterbed, according to one recent industry study. A heated waterbed mattress can also relax muscles.

Less relaxed, however, are the nation's landlords. Many of them still refuse to allow tenants to put waterbeds in their apartments. It's no hard to see why. At 650 to 900 pounds, even the lighter new beds can be two to three times heavier than a standard bed—tough on old floors and beams. Leaks, which can warp floors and ruin carpets, are still an occasional hazard.

Never mind. Sealy's ads in such home-related publications as *Sunset* and *Country Living* understandably emphasize how the product has changed. Says the copy in one Sealy's ad: "So when you think of a waterbed think of Sealy, not the '60s." ■



Instead, waterbeds live. Nearly 4 million of them are bought each year, producing sales, including accessories, of more than \$1 billion at wholesale last year, about 20% of the total bedding market. The market is now large enough that big names like Sealy and Simmons have moved in. That should help banish the countercul-

Manufacturers, like California's Somma Mattress, have really improved their product. Thanks to new designs, which include features such as multiple water-filled cylinders, waterbeds today neither slosh nor buck. They are 50% lighter, 100% better looking, and, by all accounts, less prone to leaks. There are four-poster waterbeds and soft-sided waterbeds with foam frames. Most waterbed

Targeting the mainstream.

WE SLEEP BETTER TOGETHER



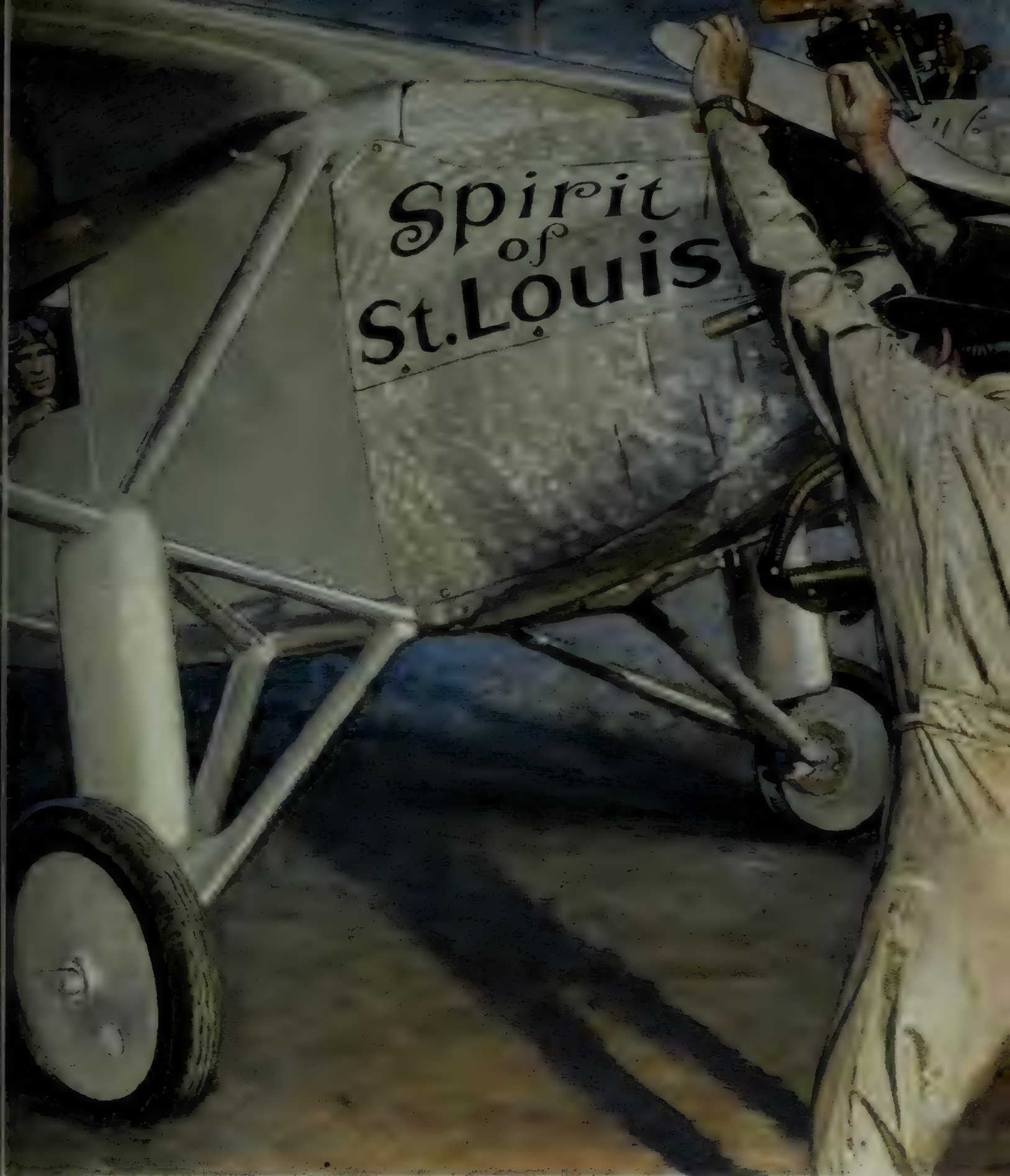
The diagram illustrates the Seemai bed system components:

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Computers/ Communications

Used to be you'd do 3-D modeling only if you were a scientist with access to a super-computer. Now you might use it to select furniture or contemplate a nose job.

Motion picture computing

By Kathleen K. Wiegner

WHEN JAMES CLARK, a professor of electrical engineering at Stanford, left in 1981 to start a computer graphics company, he saw a market consisting mostly of fellow scientists—automotive and aerospace engineers, astrophysicists and chemists—then using supercomputers to create three-dimensional models of whatever they were investigating. Clark's Mountain View, Calif. company took off. In fiscal 1988 (ended June 30) Silicon Graphics netted \$12.5 million (after extraordinary items) on sales of \$153 million.

But look at who the customers are: not just physicists and researchers, but clothing designers, packaged-goods companies, interior decorators, a sculptor and a plastic surgeon. The surgeon, for example, uses an \$80,000 Silicon Graphics workstation to simulate different cuts in reconstructive facial surgery before the patient goes under the knife and to rotate the image through any angle. Manhattan artist Kenneth Snelson uses a 3-D graphics workstation to create a series of fantasy images he calls "Portrait of an Atom." Snelson, a sculptor who works primarily in steel, plans to show some of these images next year in a show in New York City.

As happens so often in

the electronics business, the exponential decline in the cost of hardware alters not only the size of a market but its makeup. Market forecaster Dataquest estimates that the market for 3-D workstations will grow from \$400 million this year to \$1 billion two years hence. In the course of that expansion, the market will expand even further beyond the engineering and scientific community, where 3-D modeling is now taken for granted, into all sorts of ordinary commercial activities. Yesterday's frill becomes today's necessity.

The market's growth, of course, will attract more suppliers. Hewlett-Packard (second to Silicon Graphics in market share), Apollo Computer, Tektronix, Sun Microsystems and



Ed Kashi

startups Ardent and Stellar are already offering some form of 3-D workstation. The recent announcement by IBM that it will buy graphics cards from Silicon Graphics as well as license the company's graphics library suggests that IBM, too, believes the 3-D market is ripe. Digital Equipment is expected to announce a 3-D workstation early next year. Ancillary suppliers are springing up. The five-year-old Wavefront Technologies, for instance, buys workstations from Silicon Graphics and adds special 3-

software which it resells to the broadcast and entertainment industry, as well as to scientists and automotive engineers.

The reason the market exploded only recently is the sheer computer power required to create a 3-D image. With the screen divided into 1 million pixels (colored dots), it takes 24 million bits of information to paint a picture. That's for a freeze-frame. But 3-D users want motion. To make a picture move requires changes at least 10 frames a second, or 240 million bits. Now you get into serious computation. An architect, for example, wants



Artist Kenneth Snelson's fantasy graphic *Conescape*.
Yesterday's frill becomes today's necessity.



*Graphics' Clark and McCracken
ough to survive
ompetition?*

orkstation that can walk him
rough a model of his latest high-rise
ilding, showing the light playing off
ms and corridors at various times
day as well as how it will look with
urniture in place. Architect John
rtman used computer graphics to
arket his \$150 million high-tech
mplex, Inforum. Prospective ten-
ts see a realistic animation of the
mpleted facility, which is not due
open until the fall of 1989.

The machine must know Euclid as
lightened by René Descartes. The
ventor of Cartesian co-
ordinates, Descartes was
e 17th-century French-
an who merged the dis-
plines of geometry and
gebra. The mathematics
not arcane, but there is
lot of it to do in a short
ne. Silicon Graphics
es an off-the-shelf RISC
duced instruction set
mputing) processor
om MIPS, Inc. plus as
any as 50 custom-de-
igned chips to achieve
e equivalent of a billion
so arithmetic calcula-
ons per second. That is
fast as, or faster than, a
ultimillion-dollar Cray
percomputer.

Ivan Sutherland, the fa-
er of modern 3-D graph-

ics, developed software and other
principles of 3-D graphics that ran on
expensive IBM mainframes or Cray
supercomputers. His Salt Lake City-
based Evans & Sutherland made \$15
million last year, mostly from 3-D
systems used in pilot-training simula-
tors and molecular modeling systems.

A terminal hooked into a Cray,
however, is not an easy sale to an
interior designer. Enter James Clark,
now 44, once a student of Suther-
land's at the University of Utah. In
1984, just three years after founding
Silicon Graphics, Clark had the first
3-D workstation that worked inde-
pendently from a larger computer. It
sold for \$75,000. (Silicon Graphics
workstations can also be networked
to bigger computers when the compu-
tational power of a mainframe or a
supercomputer is required.) Chip
prices, meanwhile, continued down-
ward. Thanks to custom graphics
chips and microprocessors using re-
duced instruction sets, today's
\$25,000 workstation can do what a
\$100,000 system did four years ago.

Pushing the 3-D market ahead, too,
is the ever increasing amount and
complexity of data flowing into orga-
nizations. Ungraphed, it would take
the form of boring numerical print-
outs. To take an extreme case, it will
be decades before all the information
generated by the 1980 and 1981 flybys
of Saturn will be analyzed. People na-
turally understand pictures more
quickly than words and numbers.
"Graphics provide an excellent tool to
comprehend a macro view of the data
pouring in," says Rick Mayes, graph-
ics marketing manager at Hewlett-
Packard.

Just as spread sheets perform "what
if" scenarios for numbers, 3-D graph-

ics can do the same for real world
phenomena. Mechanical engineers,
designing products that are inherently
three-dimensional, are a big market
for 3-D workstations. A meteorologist
can use a 3-D workstation to simulate
how thunderclouds form under differ-
ent atmospheric conditions. A profes-
sor of landscape architecture at the
University of Toronto has a model of
downtown Toronto in his computer
that allows him to see the effect of a
new building on the skyline.

What exactly qualifies a graphic to
be called 3-D? An object can be repre-
sented in 2-D but with perspective,
much in the way painters have done
since the Renaissance. But because it
cannot be viewed from all angles, the
object lacks true depth.

Low-budget 3-D graphics tubes dis-
play "wireframe" pictures that show
the skeletons of objects as if outlined
by wires. But true 3-D, as propounded
by Silicon Graphics, shows a smooth,
solid object moving in time—a de-
signer can pan across the front of an
automobile model, for example, or
view it from behind. As James Clark
is fond of saying: "If it doesn't move,
it's not 3-D." Very sophisticated 3-D
systems approach photographic quali-
ty in the images they produce, even
recreating the way light hits different
surfaces, so that rubber tires look like
rubber, chrome strips like metal.

With close to half of the market for
3-D workstations and an installed
base of over 6,000 systems, Silicon
Graphics is still the one to beat in this
business. Aside from the recent alli-
ance with IBM, the company sells its
workstations to Prime Computer
(10% of sales) and Control Data (15%
of sales). In March Control Data pur-
chased a 20% interest in Silicon

Crawford Design Effects



*Architectural simulation of Atlanta's Inforum marketplace
A 3-D blueprint for prospective tenants.*

Graphics, which gave Sili-
con Graphics around \$70
million in cash and possi-
ble access to Control Da-
ta's supercomputer tech-
nology. In October Silicon
Graphics plans to an-
nounce two new worksta-
tions, one priced under
\$20,000. At that price a
lot more clothing design-
ers and interior decorators
become sales prospects.
"This low-end product is
our vehicle for moving
from a niche company to a
mainline player," says Sil-
icon Graphics President
Edward McCracken.
"We're the flag carriers.
Now we have to hope we
are big enough to survive
the competition." ■

The seven once-unified Baby Bells are now competitors, which means they aren't as lovey-dovey as they used to be in their joint \$1 billion research operation.

Comp/Comm

Family feud

By Gary Slutsker

IT SEEMED LIKE ominous news for Bellcore, the \$940 million (estimated 1988 budget) research consortium owned by the seven Baby Bells. US West, the cowboy in the group, told Bellcore in 1986 it was going to pull out as soon as its funding commitment ran out in 1990. The Englewood, Colo.-based holding company wanted greater control over the research it paid Bellcore for—or else it would sell its one-seventh equity interest in Bellcore. At the same time other regional phone companies were opening labs of their own, often luring staffers away from Bellcore and AT&T's Bell Labs with higher salaries.

As it turned out, US West's threat amounted to nothing more than a temper tantrum designed to get the Bellcore board to change some of its rules. Now that the rules have been changed, US West says it is happy with Bellcore. But the imbroglio raises the possibility that sibling rivalries among the increasingly competitive Baby Bells could one day threaten Bellcore's role as a national repository of technology and standards for the telephone network.

"You can't have seven different networks functioning within this country," says Rocco Marano, 60, a lawyer and longtime AT&T executive who has served as president and chief executive of Bellcore since its creation in 1984. "You can have differences, but there has to be a degree of community to make sure these networks all function as one national network."

Just days before the 1983

splitup of AT&T, Bell Laboratories maintained tightly centralized control over the AT&T network. The regional Bells' job was to dig holes in the ground and send out monthly bills. "Our strategy was implementation," says James Carpenter, assistant vice president at Southwestern Bell. "You give us a plan and we'll put it in faster, cheaper, better."



Despite its size, Bellcore, formally known as Bell Communications Research, doesn't have anything like the prominence of Bell Laboratories. Bellcore's chief executive isn't listed in *Who's Who*, and you won't find a listing for the lab in Standard & Poor's corporation directory. But Bellcore's engineers hold the current world record for transmitting the most information—36 billion bits—over a fiber-optic line in one second. Bellcore's planning and research made possible the recent tests by all seven Baby Bells of the so-called integrated services digital network.

In the divestiture, U.S. District Court Judge Harold Greene's ruling permitted the formation of Bellcore to take over coordination of the network from Bell Labs. Bellcore's workload reflects the fact that its clients are still largely utilities. The regional Bells depend on Bellcore for such things as long-term planning and keeping track of the North American telephone numbering system. They all buy most of their central office switches from the same two suppliers—AT&T and Northern Telecom—based largely on Bellcore recommendations. They all use the same Bellcore software to keep track of inventories of circuits and installation assignments for technicians.

But the communications business is becoming less and less the business of a utility. In Boston, for example, Southwestern Bell is competing directly against Nynex in cellular phones and pagers. Du Pont spent \$15 million setting up a fiber-optic network to link its plants and offices in Delaware. It got a lot of help from the local Bell operating company. But some day a big telephone user might be more likely to look elsewhere for such assistance. Judge Greene is attempting to keep the regional Bells from wandering too far away from their local utility operations, but he cannot stop technology. As communications migrate from telephone poles to satellites, computers and private networks, the business becomes more like another competitive electronics industry.

And so, all the while holding hands at Bellcore, the Baby Bells have been building up their own technical expertise. For instance, a research center opened by Nynex in 1985 now has 200 engineers. US West has 400 engineers in a lab and several hundred others scattered throughout the corporation's several software subsidiaries.

Mostly the regional Bells are developing software, since Judge Greene's prohibition on manufacturing severely limits any kind of product-oriented research. The software lets them customize services they were only recently permitted to start offering—from voice messaging to so-called in

information gateways, which provide computer access via phone lines to remote databases.

The technology centers also help cut costs. US West is working on artificial intelligence and voice recognition and response systems that would enable a repairman to get instructions over the phone from a talking computer. And the Baby Bells need technical skills for businesses where they compete against one another, from directory publishing to cellular phones, which are off limits for Bellcore.

All this new knowledge has, understandably, introduced an element of variety in a world steeped in a tradition of consistency. Thus, US West threatened to withdraw from Bellcore unless it got the right to contract for proprietary research. Under pressure from US West, Bellcore changed a rule that let it work on private projects only if the other siblings had the right to participate at any time. Now it will do work for a single sister that would be kept secret from the others for up to two years.

US West also succeeded in pressuring Bellcore into limiting the amount of basic tasks, like the national numbering system and standards development, to 37% of Bellcore's overall budget. "Ideally, everything would be elective," says Larry Kappel, vice president at US West's technology center in Englewood.

Bellcore's future is hardly threatened by US West's table-thumping. But as this episode clearly shows, the Baby Bells have come a long way from their pole-climbing days. ■

Random Access

Commentary by Esther Dyson

FORCED BUSING

The warfare between IBM and the clone makers over personal computer architecture has left customers with some vexing choices, vexing enough that some will throw up their hands and buy nothing until the dust settles. Buy now, and you run the risk that some portion of what you buy or what you bought in years past will become unusable. But that is a risk that always comes with the electronics business and its continual advances. Indeed, if customers ever stopped buying completely because a better product was on the horizon, this industry would be in tough shape.

Technically, the commotion concerns the system bus, an integral part of every personal computer. Think of it as a highway moving data to and from the various parts of a computer—the central processing unit and the add-in cards that manage the system's screen display, its data storage units (hard or floppy disk drives), communications facilities and other peripherals. Current PC buses are 16-bit. The new buses are 32-bit; that is, they handle data in packages twice as large.

Politically, the fight represents the conflict between IBM's increasingly proprietary PS/2 personal computer line and the open-standard clones, which have to band together in hopes of achieving market success. In April 1987 IBM announced a new clone-killing bus, called the Micro Channel, for its PS/2 line. The two most significant



facts about it are (a) it won't work with existing peripherals, and (b) IBM will impose tough licensing terms on clone makers that want to put it in their machines.

The clone makers retaliated last month with what they call the Extended Industry Standard Architecture 32-bit bus. The three most significant facts about the EISA bus are (a) it will work with existing peripherals, (b) it will be available to all manufacturers for a nominal licensing fee, and (c) it won't be out for a year.

As a customer contemplating the purchase of a computer, you have three choices:

1) You can buy one of the new PS/2 models using the Micro Channel now. You'll also need to buy new peripherals for it—new modems, network cards (circuit boards that must be added if you want to network your PC), external disk drives and add-on memory. Depending on your system, replacing those components could cost as much as the computer itself. In short, the leap into PS/2 territory could be very expensive. But the move may eventually pay off, as peripherals become available to use the power of 32-bit PC architecture.

2) You can buy a machine with a

16-bit bus. IBM still makes several and just announced a new one (Model 30-286), and the clones still work on 16-bit buses. You can keep all your old peripherals, but you won't be able to use the more powerful peripherals of the future.

3) You can do nothing now, and buy a machine in a year or two. Then you'll have the choice between the Micro Channel and the EISA. With the latter, you can keep old peripherals as well as use new ones. That choice looks like an easy one, but why would you want to use your old peripherals? If you're buying a new computer, you're probably giving the old one—with peripherals—to someone lower on the totem pole and getting a complete new system for yourself.

In the end, each buyer will consider his own system configuration, the sunk cost of his old equipment and the cost of the new, and his (company's) needs. The question for vendors and investors now is, Will customers stop buying at all in expectations of buying the EISA clones next year?

Things are so confusing that customers will—and should—probably do what they would have done anyway: buy the computers they need now, and wait to buy computers they may need in the future. If they're IBM buyers, they'll buy Micro Channel; if they're clone buyers, they'll buy clones, and worry about 32-bit buses when they need one. Accordingly, I expect the EISA to be a success, but it won't kill Micro Channel—as it might have had it been announced a year ago. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

Science & Technology

Edited by Gary Slutsker

Here's a paper producer that invented a new color photocopying process simply as a way to sell more paper.

Color it smart

By Ignatius Chithelen

YOU MAY REMEMBER Mead Corp., the \$4.2 billion (1987 revenues) Dayton, Ohio paper producer that diversified in the late 1960s by getting into the on-line information business. It formed Mead Data Central and set up two enormous da-

tabases—Lexis for legal research and Nexis for news articles. This year Mead Data Central's 200,000 subscribers around the world will buy an estimated \$300 million worth of electronic data, but what's important is that much of this information gets printed out on paper supplied by—guess who.



...color analyzing images
American firms didn't see the potential.

Now Mead has another big idea. It has invented a new kind of paper for color copiers and color computer printers. Like Polaroid's instant photography, Mead's Cycolor paper contains within itself much of the technology involved in creating color reproductions, thus vastly reducing the need for the kind of expensive hardware that has kept effective prices of color copies and prints prohibitive and expensive.

With Cycolor, Mead threatens to accomplish what has eluded companies from Xerox to Kodak to Canon. Though copier manufacturers have dreamed of penetrating the office market with color copiers for the past two decades, color has remained little more than a dream for them. Last year, less than 1% of the total copier revenues of \$17 billion came from color.

Mead's unusual strategy is to position itself as simply a seller of supplies. To generate interest in the technology, however, it is teaming up with hardware manufacturers around the world. This month Noritsu America Corp., whose parent is the world's largest maker of photofinishing equipment (it popularized mini labs for photography processing), will begin selling a device that uses Cycolor paper to produce color copies of 35mm slides. Priced at \$9,800, the slide printer cranks out three prints a minute at a supplies cost of about 5 cents a print and a retail price of about \$3. Competing technology—principally traditional photography—turns out prints for a retail price of \$9 to \$11 a piece.

The big market for Cycolor will be in office copiers. Here, Mead has formed a joint venture with Japan's Seiko, the \$7 billion watch and electronics conglomerate, to market and distribute a line of color copiers that use Cycolor. These, along with similar copiers from two other partners, will be on the market next year, priced at under \$10,000, with a supplies cost per copy of less than \$1. Black-and-white copiers ranging in price from \$800 to \$6,000 produce copies at 2 cents each, but the color copiers now on the market range from \$12,000 models eating up 70 cents a copy in supplies to \$60,000 machines costing 10 cents a copy.

Mead has also teamed with computer printer makers, including Brother Industries and Seiko of Japan and Greyhawk Systems Inc., a small Milpitas, Calif. company. Except for Greyhawk, Mead's hardware partners are all major Japanese corporations. "We approached major U.S. firms, but they did not see much potential," says

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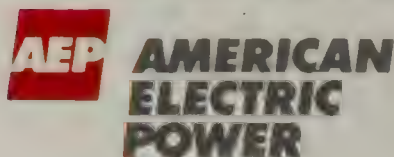
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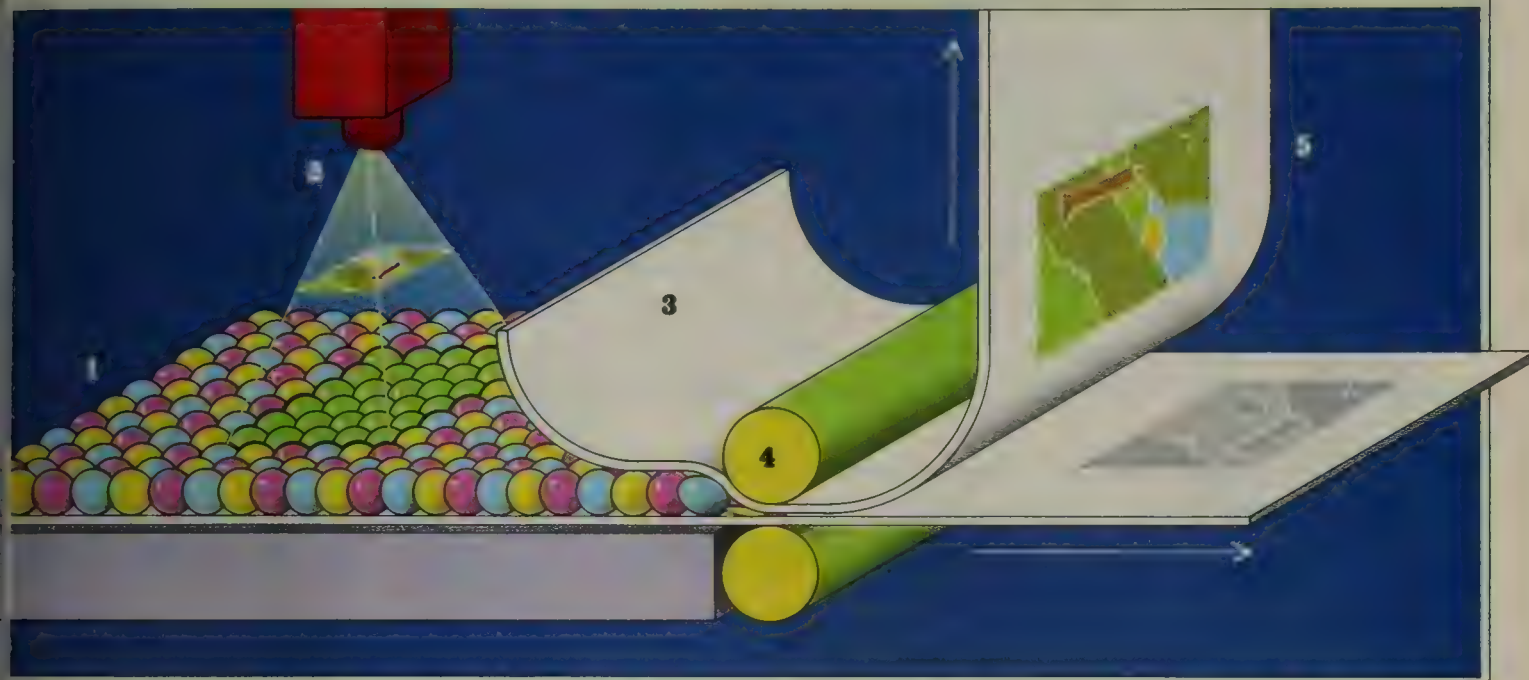
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The color's in the paper

Mead's Cycolor paper (1) is a polyester film coated with cyliths, or microscopic capsules containing one of three colored dyes—cyan, magenta or yellow. When an image is projected onto the film (2), different colors of light hit each cylith, where some photoinitiators sensitive to

certain colors of light trigger chemical reactions, hardening dyes and rendering them inert. When a receiving sheet is placed on the film (3) and passed through pressure rollers (4), the unexposed cyliths burst, blending dyes to produce an exact copy of the original (5).



Andy Christie

Science & Technology

Paul Nezi, vice president of marketing and sales for Cycolor.

The way Mead sees things, it's only a matter of time before color becomes as routine in office documents as it now is in TV and magazines. "We will be right there in the forefront as color sweeps into offices over the next ten years," says Charles Joiner Jr., president of Mead Imaging, the 230-person division that handles development, manufacturing and marketing of Cycolor. With the idea ready for production, Mead has spent \$40 million on a plant south of Dayton.

Cycolor is a polyester film base coated with millions of water-balloon-like microcapsules called cyliths (see diagram). These cyliths, about a tenth the thickness of a human hair, contain one of three colored dyes—cyan (greenish blue), magenta or yellow—along with cyanine borate salts that act as photoinitiators. These react with light to start a chemical reaction that results in the hardening of the cyliths.

Where there is green, say, in the original image, the green-sensitive cyliths, which contain magenta dye, are hardened, thus rendering them inert.

The yellow- and blue-sensitive cyliths, which are unaffected, rupture while being passed through pressure rollers, causing yellow and cyan dyes to ooze and mix, forming green on a receiving sheet. Because it's possible to control the relative proportion of the dyes, color can be reproduced. The receiving sheet is then briefly heated to enhance color reproduction, which is close to photographic quality.

Competing technologies have some big disadvantages. For example, Xerox, Kodak and Canon use electrophotography, or xerography, that relies on electrical charges to create a color image on paper using color toners. Disadvantage: The paper has to roll through three or four different toners. Photographic copiers from Konica and Kis use silver halide paper and traditional photographic chemical technology. Disadvantage: the cost of silver. Also, unlike Cycolor, both these technologies involve the maintenance of complex hardware.

Mead didn't exactly set out to discover Cycolor. Eight years ago Fred Sanders, a scientist at Mead's research lab in Chillicothe, Ohio, was working on a microencapsulated, carbonless paper to be used for engineering blueprints when he stumbled upon the idea of extending the technique for full color images. In 1985 Mead scientists developed the photoinitiator that allows the use of visible light, unlike

earlier processes, which required an ultraviolet or blue light source. Mead has over 40 patents on the process and its ingredients. The company could well have come up with the hardware required to make its new paper useful, but it has no interest in manufacturing such equipment. Better to sell the blades than the razors.

Mead isn't the only smart company with a new idea for producing inexpensive color copies. 3M Corp. has a new spin on silver halide technology. Its dry silver color process creates color separations using three microscopic layers, each composed of silver halide and one of the three basic color dyes. Under an agreement with 3M, Honeywell is marketing color printers, also priced under \$10,000, that use the dry process. Intended customers include cardiologists looking inside the heart with sound waves and engineers using computers to design mechanical parts. But so far the process is more expensive than Cycolor.

Mead's fans believe that Cycolor could significantly boost earnings, which have been strong recently. Earnings per share from continuing operations in 1987 rose 59%, to \$2.79. Salomon Brothers' Sherman Chao says Cycolor will add \$170 million, or \$2.50 per share, to Mead's net income as the company gains a 10% penetration of the plain copier paper market.

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3

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4

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5

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6

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7

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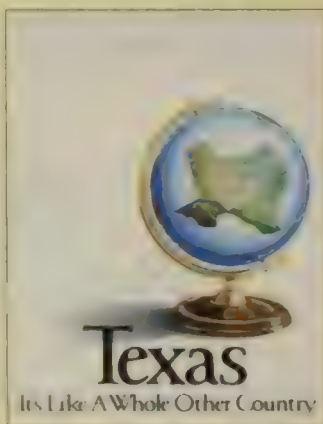
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Results

Forbes presents the ideal environment to discover options for business locations. Readers made over 100 requests for information from area development advisers in last year's issue. Advertisers distributed literature to Forbes readers who took advantage of the Industrial Development Advertising Section to obtain information on development and site alternatives.

Does a successful career mean an empty personal life? An important mental health study offers surprising answers.

In praise of the conventional life

By Ronald Bailey

SCRATCH A SUCCESSFUL businessman, it is said, and you'll find someone willingly sacrificing his personal life to a stress-filled career. Moreover, having once achieved success in business, the triumphant careerist inevitably caps those decades of stress with the most stressful moment of all—retirement from the firm he built or headed.

That may indeed be the commonly held view of the matter. But according to one of America's most learned scholars of the subject, it's all wrong. In the view of Dr. George Vaillant, director of the Grant Study of Adult Development at Harvard University, success in business does not have to come at the expense of personal fulfillment.

And when all is said and done, retirement does not have to be an angst-filled time of questioning and self-doubt.

The Grant study, begun in 1938, is one of the longest continuing research efforts into adult mental health in American history. Businessman-philanthropist William Grant endowed the project, which for almost 50 years has tracked the lives, careers and psychological development of nearly all of 268 men chosen from Harvard College's classes of 1939 through 1944.

Vaillant, who is also professor of psychiatry at Dartmouth's Medical School, has directed the Grant study for the past 16 years. Each participant has been followed for nearly half a century with questionnaires, telephone calls and in-depth personal in-

terviews about the course his life has been taking.

The subjects have been tracked through war and peace, marriage and divorce, career upheavals and multiple transcontinental relocations—an enormous undertaking that is only now beginning to wind down as the subjects, who are well into their 60s, retire or die.

Most of the study's participants came from privileged backgrounds. Even so, in 1940 fully one-third of their fathers made less than \$5,000 per year and one in seven made less than \$2,500. One-third of their fathers had had some professional training, but half of their parents had never graduated from college. While school was in session, half of the subjects had to work in order to help pay their

Carl Henrie





Careers

college expenses.

Remarkably, it turns out that nearly 50 years later none of these socioeconomic differences has had the slightest correlation with later career success and psychological health. Initiative, a good education, and the experience of simply living out their lives eventually erased all initial statistical differences.

In 1977 Vaillant summarized the study's findings to that point in a bestselling report on his research, *Adaptation to Life* (FORBES, Dec. 1, 1977). At the time the participants were in their 50s, and the study found that those who were living what most people would regard as numbingly conventional lives were in actuality also doing the best in their careers. The men with the stablest marriages and deepest friendships were the successful ones who had become the company presidents.

More than a decade after the publication of *Adaptation*, Vaillant finds his original conclusions, if anything, more strongly anchored than ever. Says he, "There's no question that conventional lives statistically are the happiest. Stopping smoking, exercising, working hard, eating breakfast and not getting divorced—all these humdrum things correlate directly with happiness. The idea in all this is conservatism in the sense of conservatism."

By their 60s and contemplating retirement already in, retirement, the participants have begun the pro-

cess of "giving away" what they have accomplished. Instead of worrying about retirement, the most successfully adapted men are actively and creatively engaged in passing along their knowledge and skills to a younger generation.

This so-called "passing along" process is one that Vaillant says began for many of the study's participants in midlife as the men took stock of themselves. In so doing, they came to feel that their painfully won achievements would "lose their savor unless shared, unless spiced with the new task of becoming mentor to the next generation."

To illustrate, Vaillant turns to the life of a Grant study participant to whom he gives the pseudonym Mr. Mason (the study guaranteed anonymity for all participants). None too auspiciously, the study staff initially gave young Mason a "C" grade for psychological stability.

As a youth Mason had been a loner who did not seem very likely to set the world on fire. Yet by his 40s Mason remarkably enough headed his own company. At age 59 he was even running two companies part time while also maintaining a farm and a career as a sculptor. At age 63 he was planning to help young friends start their own company. Vaillant concludes that Mr. Mason is clearly enjoying and now passing along the fruits of his life's work.

Mason, it turns out, is typical of the Grant study participants in having developed a business of his own. Vaillant reports, for example, that the majority of the participants in the Grant study didn't stay in Forbes 500s companies for very long into

their careers, and the ones who stay proved to be psychologically the most vulnerable and creatively least innovative. Grant study participants have become bestselling novelists and Cabinet members, scholars and captains of industry, physicians and teachers of the first rank, judges and newspaper editors.

Vaillant also points out that the Grant study has yielded absolutely no correlation between academic success and career success.

Getting into an elite university like Harvard is clearly a helpful step on the ladder of career success. But, says Vaillant, "Once you've gotten to Harvard, getting A's or getting C's isn't very important in what you do with the next 40 years of your life." What would Vaillant advise parents to bargain and wheedle their kids into the Ivy League? Not exactly. Says he, "To do like anything else. You have successful kids by setting a good example, not by nagging them. The ones you nag and pull strings for are the very ones who drop out at the end of the first year anyway."

For nearly 50 years the Grant study has been a rich source of information about how human beings develop and adapt. From it we have learned the secrets of career success and a rich personal life are, in fact, linked, and not at all contradictory. We have learned, too, the secrets of providing guidance for a younger generation ameliorates the stress of approaching retirement.

As the study enters its sixth decade, we can hope to learn more about how people cope with approaching old age, the effects of a spouse's death on their lives and how, looking back, they evaluate their own lives. ■

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What are you saving the Chivas for?



Personal Affairs

Edited by William G. Flanagan

Sandwiched between bloody Nicaragua and corrupt Panama, Costa Rica is like the eye of a hurricane—peaceful, stunningly beautiful, and tax-free for Yankees who don't want to go home.

Do you know the way to San José?



Secret in the Gulf of Nicoya, off the Pacific Coast
The secret is leaking out.

By Jason Zweig

COSTA RICA SEEMS almost good, or too fortunate, to be true. Only the size of West Virginia, with fewer than 3 million people, it is one of the few nations in the world without an army. It has no known mass slavery, it has one of the highest literacy rates in the Western Hemisphere, more than 10% of its territory is preserved in national parks, poverty and violent crime are rare, temperatures average 72 degrees year-round. The landscape is breathtaking, the wildlife abundant. There are some 774 miles of Caribbean and Pacific coast studded with clean white beaches.

The secret is leaking out. In 1991, tourism jumped 10%, as 278,000 people visited, one-third from North America. And an estimated 30,000 U.S. citizens have moved here, about 1% of the population.

David Housman, 59, a tax attorney and accountant from Albuquerque, owns a house in a luxury country club just outside San José, the capital, and a home at Punta Leona, a Pacific beach. With clients in both the U.S. and Costa Rica, he migrates with the tax seasons and the weather. Citing the climate, the cost of living, the quality of health care, the people and the tax advantages, he rates Costa Rica "the number one choice for retirement home."

Peter Dickinson, author of *Travel and Retirement Edens Abroad* (American Association of Retired Persons, \$16.95), considers the quality of life in Costa Rica among the highest in the hemisphere. "It's probably one of the easiest places in the world for an American to settle," he says.

To become a *pensionado*, or government-approved retiree, you must have a steady source of foreign income exceeding \$600 a month and live in Costa Rica at least four months out of the year. Your foreign income is exempt from Costa Rican income tax, there is no tax on interest from bank deposits, funds can be transferred in and out of the country without local restrictions, and you can import an automobile and up to \$7,000 in personal effects duty-free.

Pensionados cannot hold salary jobs in Costa Rica, but they are frequently encouraged, to start businesses—without bribes, equity-sharing and much of the red tape that is commonplace south of the border. There are even tax incentives for businesses in agriculture, tourism and manufacturing. But note: Amateur entrepreneurs newly arrived from the U.S. are

ften easy prey for local sharpies—including transplanted Yanks. Says Dan Blum, 63, a former New York newspaperman who settled in Costa Rica 13 years ago and hasn't even visited the U.S. since, "There's a standard joke here: If you want to be a millionaire, just bring \$2 million with you when you come."

In all, *pensionados* contribute \$120 million to \$140 million annually to the local economy. Many own small farms producing cash crops like macadamia nuts, pineapples, orchids and ornamental plants.

Others run hotels and travel services. Marvin Rockwell, 65, came to Costa Rica in 1950. With his Costa Rican wife, Flory, he runs the *Pensión del Mar* near the Monteverde cloud forest, a mile above sea level. A double room, meals and tax included, is \$18 per person, but their 2,000 guests a year are enough to enable the Rockwells to turn a small profit.

Whatever you choose to do in Costa Rica, the first \$70,000 of your local earnings will be exempt from U.S.



Dan Budnik

Rio Terraba region

Poverty and crime are rare.

income tax. After five years, you will be eligible for Costa Rican citizenship. (Besides being entitled to vote, citizens also get excellent low-cost medical care.)

If you just want a vacation home, consider Costa Rica's Pacific coastline, where land goes for about \$16,000 an acre. That should get you a verdant slope of coconut palms, man-

go and banana trees within walking distance of a pristine white beach. A three-bedroom beach house ranges from \$40,000 to \$150,000.

What about urban property? In Escazu, one of San José's most desirable neighborhoods, a four-bedroom Spanish-style stucco house, with swimming pool, sauna, two-car garage and a stunning view of the 7,000-foot Escazu Mountains, goes for about \$200,000.

Will you have to do without the finer things in life? Yes and no. Imports, including some toiletries and drugs, are scarce and costly. But even small towns are electrified, most water is potable, the roads are excellent, gasoline and spare parts are readily available (if expensive), and the telecommunications system is the best in Latin America. (You should speak Spanish if you plan to stay, but visitors can get by in English.)

Dealing with the bureaucracy can be maddening for new arrivals. But a good lawyer can do your paperwork for about \$1,000 to \$2,000.

Andrew Holbrooke/Black Star



The American-owned Hotel La Mariposa, overlooking the Pacific

The nation's most expensive hotel—at \$162 per night for a double.

...time to visit the country is November and April, the dry season. An ideal base is San José, the centrally situated capital city of 200,000, which is a mecca for American settlers.

San José is surrounded by spectacular emerald-green mountains. With its parks, museums, dozens of theaters and cinemas, a kosher deli and a Well-Being Institute, you might almost mistake it for San Jose, Calif. The Jade and Pre-Columbian Gold museums are fascinating, and the National Theater features drama, orchestral music, opera and ballet from around the world. From San José, several tour firms operate charters, yacht

cruises and excursions to beaches on both coasts, volcanoes and many of the spectacular national parks.

Take the "jungle train," a one-day trip on a sinuous mountain railway through the lush central rain forest, connecting San José to the Caribbean coastline.

The Tortuguero wildlife preserve, along the northern Caribbean coast, is the seasonal nesting ground for hundreds of giant turtles. Nearby rivers offer some of the finest sport fishing in the world for marlin, snook and tarpon.

Monteverde, between San José and the Pacific coast, is a tropical cloud forest—20 square miles of mountain-

top jungle alive with monkeys, hummingbirds and orchids.

The rocky coves of Manuel Antonio National Park, on the Pacific Ocean, shelter pristine white beaches fronting gin-clear water. On a bluff some 320 feet above the ocean is the luxurious American-owned Hotel La Mariposa, which commands a stunning panorama of the sea and the sunset.

In all of Costa Rica, only the Hotel Aurola in San José approaches the price of the Mariposa, \$102 a night. More typically, quality hotels run \$50 a night for a double. For about \$100 a day per person, you can travel regally. And, say the *pensionados*, for \$1,500 a month you can live like a king.

At ease

No matter how comfortable, most recliners are just too ugly for anything other than a rec room. But clever designers are now making reclining chairs that are at home in even the most conservative executive suites. If high tech is your style, there are models that could fit a *Star Trek* set.

Bradington-Young and Leathercraft, for example, two leading makers of adjustable chairs, manufacture leather Victorian wing chairs, complete with gleaming brass nailheads (starting at \$1,095) and tufted chaise longues with oak finish (\$2,300 and up). But you'd never know these were recliners by looking at them.

"You hit that hidden button, and wheel!" says Bradington-Young's President Charles Young, whose firm produces about 25,000 leather easy chairs yearly, in 40 styles, with strongest sales in California, Texas, Florida and the Midwest. "We make elegant chairs that happen to recline," he says. "Outrageously comfortable, sure, but in Queen Anne or Italian-modern disguise."

Leathercraft also offers an ultra-modern chaise longue for \$4,150 that gracefully rises from a streamlined base.

These new adjustable chairs (manufacturers cringe at the "R" word) can be ordered in contemporary colors, too. The Roche-Bobois/Maurice Vilency showroom on New York's Madison Avenue, for example, carries a variety of European ratchet-backed chairs, low and overstuffed, which can be ordered in soft-textured, Mediterranean-hued leathers of peach, olive and bone (\$1,900 and up).

The reclining mechanisms have been improved. Bradington-Young uses small nitrogen-gas cyl-



Laurence Okun of Hüls America aboard Leathercraft (\$2,250).



Schaefer Construction Co. President Marvin Schaefer tries out Bradington-Young Airliner (\$1,200)

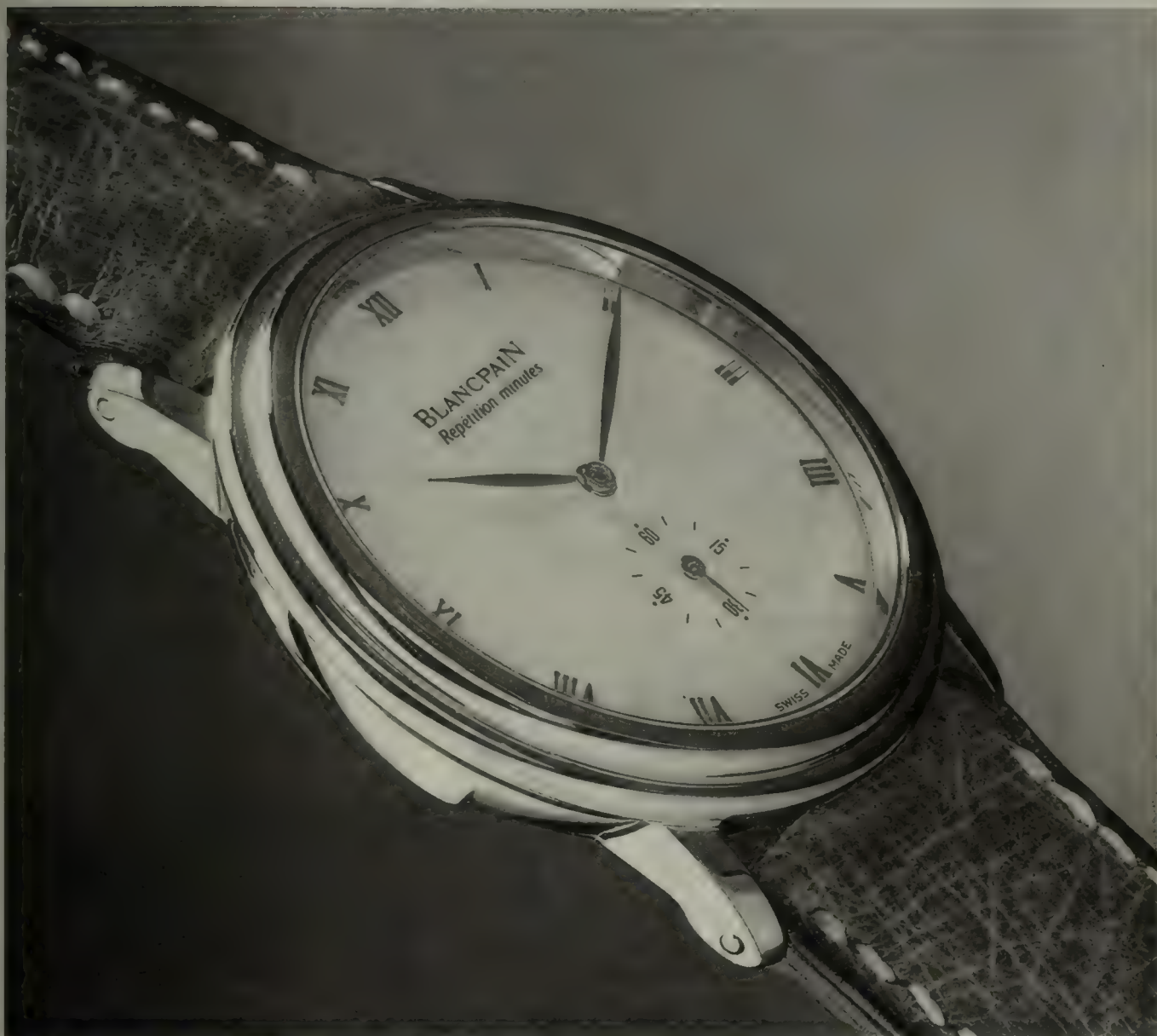
inders in its newest ottoman-club chair sets, allowing customers to calibrate their comfort to the centimeter.

You can custom-order chairs, of course, if you can't find exactly what you want on a showroom floor. A good local furniture store (particularly the smaller, pricier firms) will usually stock manufacturers' sample books. National and regional department stores that retain full-service furniture sections—such as Marshall Field's, B. Altman's, or Bloomingdale's—can also arrange for individually made chairs, as can interior-decorating firms.

If you do custom-order, you can select not only the style but also the framing material (oak or mahogany, usually, kiln-dried to prevent warpage) and, of course, the coverings and colors. And they are doing a lot of fancy things with leather these days.

Mark Ferris

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Traditional high-gloss, or glazed, leathers are now available in pewter, cedar and honey shades, as well as standard blacks and browns. Even the hand-antiqued, hand-crumpled leathers come in aniline-dyed, bright shades from persimmon to sky blue. And you can select new mock-leather

coverings—for instance, the kid-like (but 100% nylon) Nova Suede, which are a lot easier to care for than the real McCoy.

U.S. makers of chairs that recline include: Bradington-Young, Cherryville, N.C., 704-435-5881; Leathercraft, Conover, N.C. 704-322-3305;

Hickory Chair Co., Hickory, N.C. 704-328-1801; and Berkline, Morristown, Tenn. 615-586-1461. Most firms accept special orders, usually filled in eight to ten weeks. A Roch Bobois catalog is \$10 (200 Madison Avenue, New York, N.Y. 10016, 212-725-5513).—Anne Matthews

The sheer catalogs

The range of things offered by catalog is now galactic—from a Connemara pony (The Carroll Journals, \$10,000) to a golf cart equipped with stereo and sunroof (Austad's, \$8,500) to a one-person hot-air balloon in any reasonable design you want (Neiman Marcus, \$18,000 and up). See below for toll-free numbers.

Credit convenience, lack of time, fear of crime, unavailability of items locally, savings on sales taxes or sheer laziness—whatever the reasons, catalog buying is now a \$38-billion-a-year business, accounting for some 10% of all retail sales in the U.S. And it's growing at an annual pace of 15%. Last year half of American adults did some shopping by telephone or by mail, using some 8,000 catalogs.

Here are some things to bear in mind if you shop by catalog.

- **Remember, pictures can deceive.** Mail-order houses live or die on the selection and illustration of the merchandise in their catalogs, but what you see could look better than what you'll get. With apparel, for example, you don't get to feel the fabric before buying, or get to try on an item for size. So when you order, check the policy on returns. The better houses will make refunds, not just offer credit. And some will include the cost of postage in the refund check if merchandise is defective. The redoubtable L.L. Bean will make good on merchandise at any point in its lifetime, no questions asked.

- **Order by phone.** Three-quarters of trendy catalog orders are by toll-free phone, not mail, which makes sense. Your order gets into the system faster and you can ask questions about the merchandise, the shipping and return policies, expected delivery, and so on. You'll also have a representative's name in case of a later problem. Office calls are a good time to call, when they should be able to answer your questions at length—and may even

fetch the item you want in order to answer specific questions. Note: Ask if the goods you order are, indeed, in inventory. Having your order filled from a third-party supplier invites all kinds of complications.

- **Order early.** Your order will be filled quicker if you order well in advance of holiday periods, and you stand a better chance of the items' still being in

Note: The House Judiciary Committee is now considering legislation that would assess across-the-board sales taxes on all catalog purchases.

- **Pay by credit card, not check.** Under the Fair Credit Billing Act, if problems arise over whether you ordered an item or not, or if it is not received or if the house refuses to acknowledge a returned item, you can simply refuse to pay when you are billed. Then it's up to your credit card issuer to resolve the dispute.

How do you get catalogs? Order one and you're likely to be inundated in no time. Your library probably has the *Directory of Mail Order Catalogs* (Green House), which lists over 6,300 catalog publishers by category. Many advertise in home and women's magazines.

For openers, here are the toll-free numbers of a dozen selected houses:

Apparel

Lands' End. Casual wear for men, women and children. Famous for rugby shirts. 800-356-4444.

L.L. Bean. Outdoor wear. Open Christmas Day. 800-221-4221.

Talbots. Traditional women's wear. 800-225-8200.

Tweeds. European-style attire for men and women. 800-542-4722.

Gifts

Austad's. For the golf cart with stereo. 800-759-4653.

The Carroll Journals. Ponies and other expensive Irish specialties. 800-255-3933.

Gump's. Put a little jade in your life. 800-334-8677.

The Horchow Collection. The ostrich-feather duster (\$15) is among all-time favorites. 800-527-0303.

Neiman Marcus. Design your own hot-air balloon. 800-634-6267.

Electronics

The Sharper Image. A fog-free shaving mirror for \$39. 800-344-4444.

BN Genius. Its antisnooring device (\$44.95) is a big mover. 800-468-4410.

Heath Co. From garage-door openers to ham radios. 800-253-0570.

—Edward F. Giltinan



stock. Better houses fill orders in two days, and most merchandise will reach you via U.S. mail or United Parcel Service within two weeks. Roger Horchow, whose Dallas-based Horchow Collection is now being purchased by the onetime rival Neiman Marcus Group for around \$100 million, says 85% of orders are shipped within two days after they are received; Lands' End, which alone does \$336 million annually in mail-order trade, claims 90% are shipped out the day after being received.

- **You can avoid sales taxes** as long as the catalog company from which you order does not have operations in your home state. Order forms list states in which taxes are levied. (New York City residents, for example, can often save 8¼% by buying through catalogs, though technically they are supposed to pay equivalent use taxes.)

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Faces Behind the Figures

Edited by Robert T. Grieves

Maverick regulator



Dennis Patrick, chairman of the FCC

Jeffrey MacMillan

"We have an obligation to move forward."

Congressional leaders breathed a sigh of relief when President Reagan appointed Dennis Patrick chairman of the Federal Communications Commission in April 1987. They thought Patrick, 37, would make few waves. Oops. Not only has Patrick scrapped the 38-year-old FCC rule requiring broadcasters to air opposing viewpoints—the venerable “fairness doctrine”—but he also proposed steep access charges for users of private telecommunications networks that could have doubled their costs of doing business. In the wake of furious opposition, the proposal was dropped.

Now, despite congressional requests to wait until after the November elections, Patrick has declared himself determined to replace the FCC’s so-called rate-of-return rule—which allows telephone companies to recoup all of their costs plus 12% of revenues—with a price cap. Says Patrick: “We have an obligation to move forward when it’s in the public interest to do so.”

Under the proposed price cap, the FCC would freeze at current levels the charges that customers of AT&T and the regional phone companies now pay. To make a profit, the phone companies would simply have

to become more efficient. Says Patrick, “You create the incentive to cut costs, because the company wants to beat that price cap formula.”

Los Angeles-born Patrick, son of a policeman, graduated from Occidental College in 1973, where he was chairman of the Young Republicans, and went on to earn a law degree from UCLA. In 1981 he became a presidential adviser in the Reagan White House, and in 1983 was appointed a commissioner of the FCC.

Though he could easily be replaced as chairman by the next President, Patrick expects to serve out his term, which expires in 1992, as one of the agency’s three commissioners, no matter who wins the election in November. “Our presumption at the FCC is that competition is generally good,” he says. “That’s what I want to foster.”—Kerry Hannon

Ball's new idea

It’s not often that you hear a Wall Streeter volunteering to have his business taxed, but that’s precisely what George L. Ball, chairman of Prudential-Bache Securities Inc., is recommending. Last month, at a Wash-

ington, D.C. financial markets conference attended by more than 200 financiers, economists and congressmen, Ball proposed that a 5% surcharge be slapped on short-term securities trading profits. Why? To discourage such profits, of course.

Ball thinks that Wall Streeters have lost their way in all the wheeling and dealing for short-term advantage and won’t find their way back unless they’re compelled to. “Institutional corporations and individuals no longer view the equities markets as viable places to raise capital,” says Ball. “The October crash, compounded by insider trading, scandals, Boeskyism and a repugnance of corporate raiding, has made people very chary of Wall Street.”

He takes an appropriately long view of what such a tax would do to Prudential-Bache, one of the top risk arbitrage firms in the country. “If the marketplaces are viewed as attractive, fair and orderly, then the amount of investment in the aggregate will be greater,” Ball says. “In the long run, Prudential-Bache and other securities firms will enjoy greater profits.”

A New Jersey native, Ball, 52, earned an economics degree from Brown in 1960. After serving two years in the Navy he went to work for E.F. Hutton, where he became president in 1977. He left Hutton to head Prudential-Bache in 1982, just as one of Wall Street’s biggest-ever check-kiting scandals hit Hutton. Ball has maintained that he knew nothing about the fraud.

Ball’s brush with scandal at Hutton as well as The Street’s more recent excursions into insider trading, have led him to the conviction that the securities industry needs to be reined in. Says Ball of the sentiment that underpins his proposal, “I think pe-

Mallory Hall



Prudential-Bache’s George L. Ball
Beating back Boeskyism.

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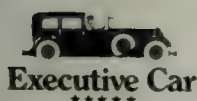
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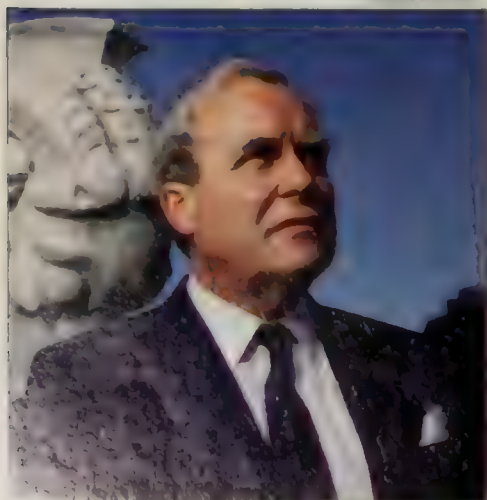
ple in the investment community understand that I care deeply about the markets."—R.T.G.

Back from the dead

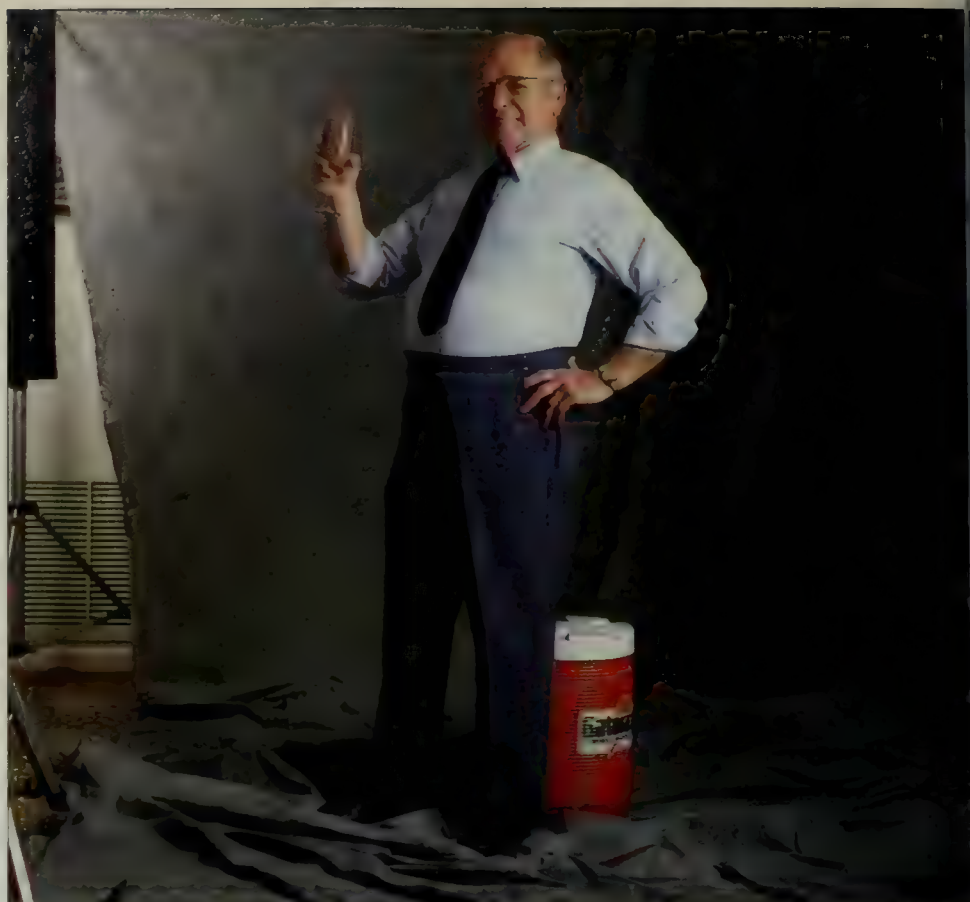
We consider the U.S. the safest market in which to invest," says Lawrence Urquhart, 53, the new chief executive of \$2 billion (revenues) Burmah Oil, the British lubricants and specialty chemicals giant. "We have 30% of our assets in the U.S., and we're looking to acquire another U.S. company by the end of this year." Burmah may also seek a Nasdaq listing next year, Urquhart says.

The blistering pace of Burmah's U.S. expansion—it has acquired 11 American companies in the last three years—follows its remarkable rebound from the brink of bankruptcy in the mid-1970s. Just before the oil embargo of 1974, Burmah invested heavily in 43 tankers and 10 liquefied natural gas ships. To keep itself afloat postembargo, the company was forced to sell 51% of its North Sea oil stake and its 23% interest in British Petroleum to the British government. "We sold our assets at the bottom of the market," Urquhart says with lingering bitterness. "The government stole them."

Fortunately, there's a happy ending. Under Urquhart's direction, U.K.-based Castrol, Burmah's principal lubricants company, has muscled the firm back to financial health. The globally known Castrol brand name helped Urquhart push aggressively



Oil's Lawrence Urquhart
bringing the firm back to health.



Dr. Robert Cade, developer of Go!

Chris Cox

A smorgasbord of fiber-enhanced food items.

into overseas markets, particularly in Mexico, Colombia, Chile, South Korea and Japan. Castrol's sales now total 3% of the highly competitive Japanese motor oil market, and it contributes 65% of Burmah's total revenues.

A native Scot, Urquhart earned a law degree from London University in 1957 and worked for Price Waterhouse and Shell International before joining Burmah in 1977. He was named chief executive this July. The 102-year-old firm, once active in oil production in India and Burma, is now the world's second-largest marketer of lubricants, behind Shell.—R.T.G.

On your mark, get set, drink!

You drink Gatorade just before you work out, and you drink Go! right afterward," says Dr. Robert Cade, the University of Florida physiologist who invented bestselling Gatorade (1987 sales, \$450 million) in 1965. Go!? It's a low-fat, high-protein drink that Cade developed last year to restore the amino acids, vitamins and minerals that athletes lose through exercise. The milk-based drink comes in three all-American flavors: chocolate, strawberry and vanilla.

But does the world really need another nutritious drink for athletes? "I don't know about the world, but ath-

letes do," Cade says. "Other products do the same job, but they don't taste as good. This is a high-protein milkshake that helps you recover from workouts." Cade thinks Go! could be as popular as Gatorade, which is now used by high school, college and professional athletic teams in the U.S.

Go! will be distributed by Nutra Products Inc., a Gainesville, Fla.-based marketer of sports and consumer nutrition products. Cade sits on the board. The firm is a subsidiary of Phoenix Advanced Technology, which helps academic institutions develop and market medical products.

The drink's popularity is growing, insists Cade. Example: At the Summer Olympics in Seoul the U.S. swimming and track and field team swilled the stuff with gusto, he says.

Cade, 61, grew up in San Antonio, Tex., and graduated from the University of Texas Southwestern Medical School in Dallas in 1954. Since the Sixties he has taught at the University of Florida. His income from Gatorade last year totaled more than \$1 million.

What's next? A smorgasbord of low-fat, fiber-enhanced food items, says Cade; they'll apparently range from soft drinks and beer to pudding and salad dressing, and be aimed mainly at the 40 million Americans who suffer from high cholesterol.—R.T.G.

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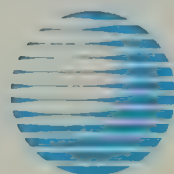
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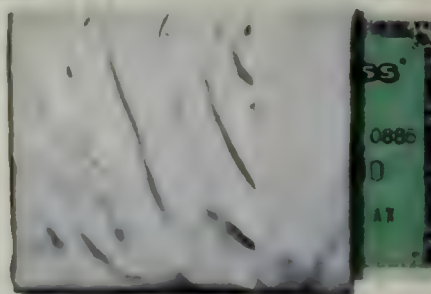
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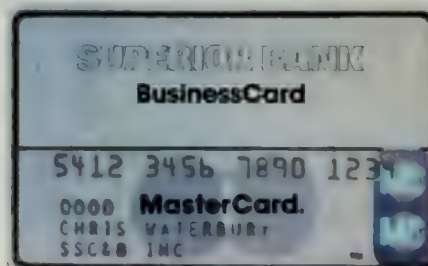
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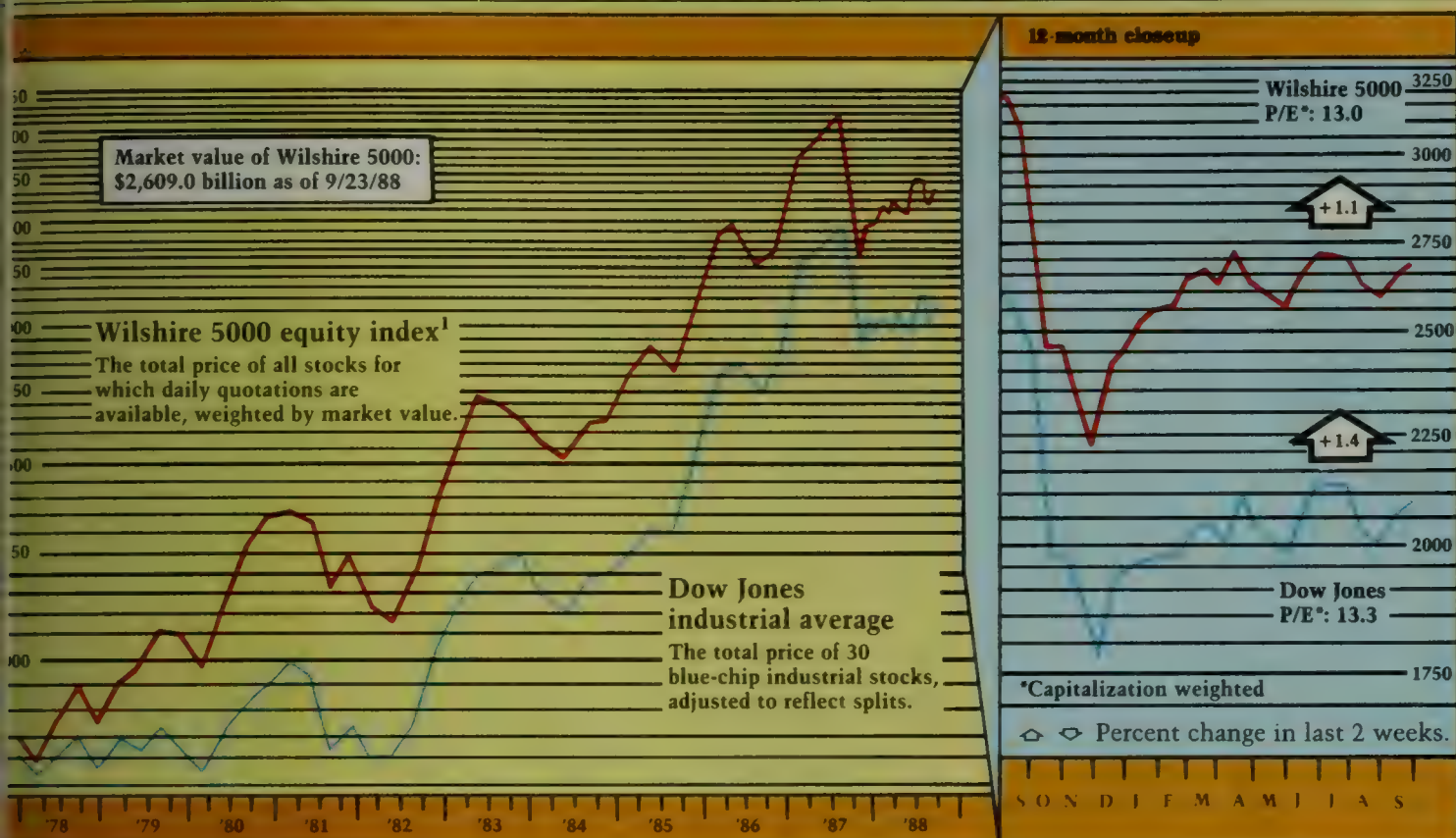
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The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



agging the rest of the world. Markets in Japan and France have already recovered from the international debacle of 1st October. Meanwhile, the U.K. market is still down 5% for the past year, while the Dow is down 18.7%.

Why has the U.S. market stalled? Perhaps investors are staying on the sidelines until after the election. Edward Nicoski, a market strategist for Piper, Jaffrey & Hopwood in Minneapolis, has another viewpoint. "Last October's

crash was like a death in the family, and investors are not comfortable with the market." Nicoski thinks that the Dow is presently at the upper end of its trading range.

The current P/E ratio for the Forbes 500 is 12, down from 20.8 twelve months ago and 13.8 three months ago. At 12 times earnings, the average stock has an earnings yield (earnings divided by price) of 8.3%. But you can do just as well with a CD.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ²	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.5	4.1	3.6	3.5	1.8	2.8
in last 52 weeks	-14.8	-16.4	-18.7	-14.9	-15.6	-12.9

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ³		P/E multiple		Dividend yield		Growth profile ⁴		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over \$35	under \$4
in last 4 weeks	3.6	3.1	3.3	1.7	2.8	3.5	1.7	4.8	3.6	2.1	3.6	1.9
in last 52 weeks	-10.2	16.4	15.2	6.0	-7.3	0.2	2.6	20.4	15.5	1.8	-6.6	10.8

Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. ²Based on sales. A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. ⁴A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/23/88. Prepared by Wilshire Associates, Santa Monica, Calif.

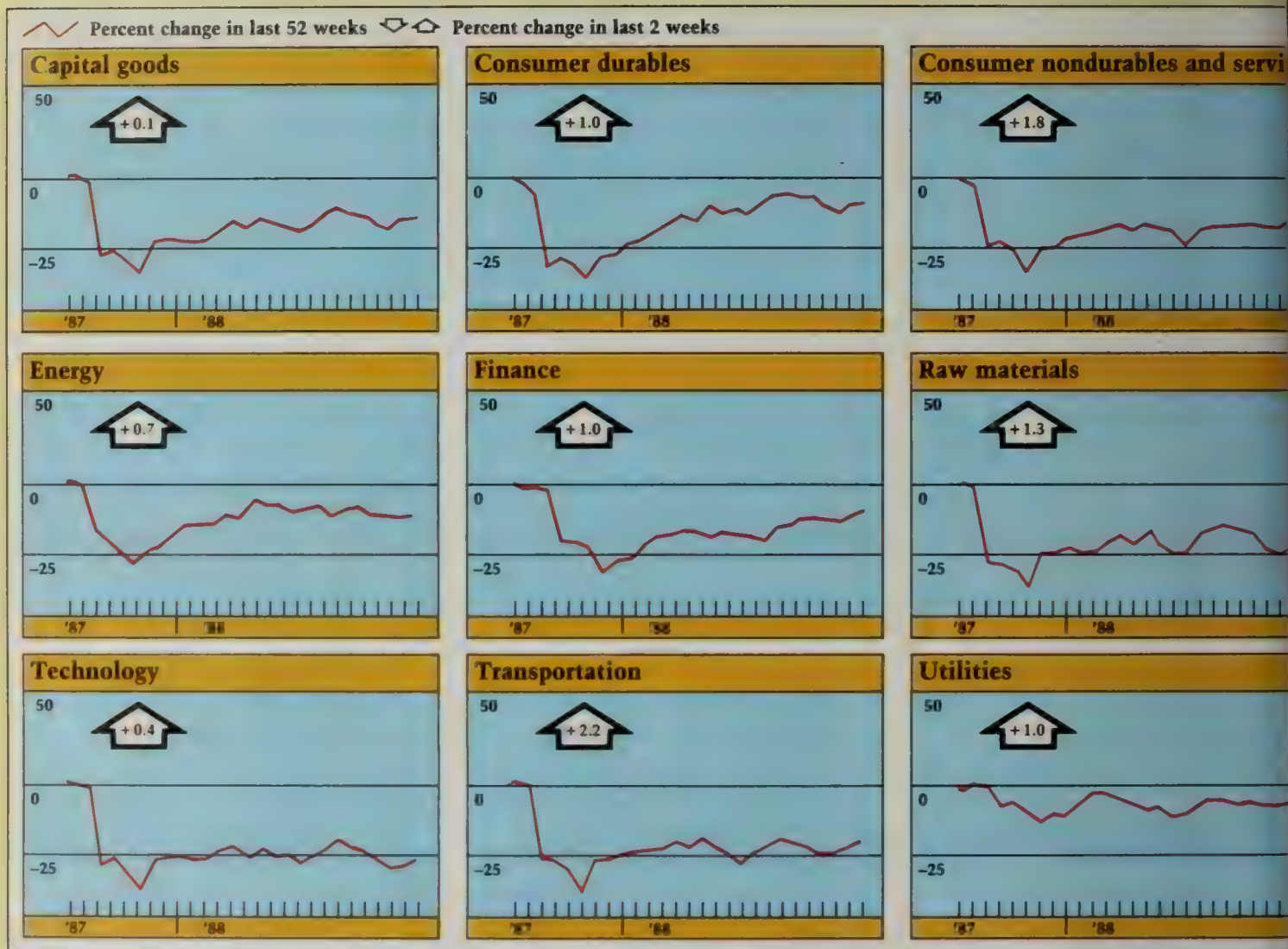
Steven Ramos

Where the Action Is

Surprises good and bad. The hottest Wilshire sector over the last two weeks was transportation, up 2.2%. Leading the group was CSX, which announced its intent to buy 38% of its stock in a restructuring that would also include asset sales. The market responded favorably and moved CSX up 14.8% for the recent two-week period.

Bad news knocked down Regina, a 96-year-old vacuum

maker. On Sept. 21 Regina announced that it would report a loss for the September quarter. At the time it had highest "timeliness" rating from *The Value Line Investment Survey*. Regina had been claiming earnings and sales growth in excess of 40% for the past two years. On Sept. 27 Peat Marwick disclosed that Regina's financial statements for the past year appear to be inaccurate.



What the Analysts Think

Relativity. The Forbes Sales 500 is priced at 12 times latest 12-month earnings and 9.7 times estimated 1989 earnings. But back in August 1984 the Forbes Sales 500

had an expected 1985 earnings multiple of 6.5. Either the 1989 estimates are too conservative or stocks are not as cheap as one might think.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	\$3.19	12.0
1988 estimates	3.59	10.7
1989 estimates	3.96	9.7

Rank based on change in estimate	Sector	Estimated 1988 EPS	P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	\$3.21	9.5	0.52%	1.08%
2	Consumer durables	4.66	11.2	0.17	0.33
3	Capital goods	2.63	14.1	0.09	0.23
4	Consumer nondurables	2.45	13.6	-0.06	-0.20
5	Utilities	2.39	10.1	-0.15	-0.37
6	Technology	2.93	11.4	-0.28	-0.56
7	Finance	3.42	8.8	-0.57	-0.86
8	Energy	3.20	11.9	-0.84	-0.26
9	Transportation	2.30	11.7	-0.93	-1.95

Rankings based on 12-month performance. Data are compiled and updated continually by the Institutional Brokers' Estimate Service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.



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The label "nondiversified fund" is often misleading, but it's never irrelevant.

What's in a name?

By Jonathan Clements

WHICH OF THESE two mutual funds is "diversified" and which is "nondiversified"?

• Vanguard Specialized Gold and Precious Metals Portfolio, whose latest semiannual report shows it holding 54 stocks, including American Barrick, Consolidated Gold Fields and Lac Minerals. The fund's largest position accounts for 6.4% of assets.

• Fidelity Select Precious Metals and Minerals Portfolio, which owns 68 stocks, including American Barrick, Consolidated Gold Fields and Lac Minerals. Its largest holding stands at 5.5% of assets.

Sound similar? Indeed, they are. Yet one of them, the Vanguard fund, styles itself a "diversified" fund. The other, Fidelity's, calls itself "nondiversified." How can that be?

Here's how the distinction works. The Vanguard fund is registered as a diversified investment company under the Investment Company Act of 1940. By law, it has to have at least 75% of its assets well diversified—and no more than 5% of those assets in one stock holding. For the fully invested portfolio manager, that means owning at least 15 stocks. There are no restrictions on the remaining 25%, so the manager could theoretically put it all in one stock, giving the fund a total of 16 holdings.

Managers of the Fidelity fund, in contrast, don't need to position it as a

diversified fund. Thus, they escape the stipulations laid down in the 1940 act. But the fund has to meet requirements of another kind—those laid down by the IRS. To keep its dividends and capital gains exempt from corporate taxes—it is, after all, only a conduit for income—the Fidelity fund must qualify as a "regulated investment company" under IRS rules. And to do that, the fund need have only 50% of its assets well diversified. The other 50% may be spread over just two stocks, so that a fully invested fund need hold only 12 stocks.

The Fidelity portfolio is by no means the only one to be nondiversified in theory but diversified in fact. Many of the 84 funds currently labeled as "nondiversified" are nondiversified only in name. So if the label is so often meaningless, should investors bother to take any notice?

Absolutely. If a fund is nondiversi-

fied in name, it says a lot about the risks a portfolio manager can take. And with the ability of a nondiversified fund manager to concentrate on the fund's assets in just two stocks, cautious investors might be well advised to park their money elsewhere. Truly nondiversified funds have compiled wildly different records. Often they're highfliers one year and laggards the next. Consistent stellar performances are hard to find. Just two nondiversified funds, Claremont Capital and Lehman Capital, are on the FORBES honor roll (See page 5). Claremont's portfolio manager Erik Bergstrom, has 13% of the fund's assets in Amgen, a biotechnology company that has developed products that stimulate blood cell production. Bergstrom bought into Amgen at \$10 a share in 1981, before the company even went public. The stock recently traded at 30 1/4.

"There are only so many big ideas," argues Ronald Wiener, Lehman's portfolio manager. "At what point are you filling out the portfolio just for diversification's sake?" One of Wiener's favorite holdings is LIN Broadcasting, which owns key cellular telephone franchises in five cities.

Ironically, LIN was once a sizable holding of the 44 Wall Street Fund. In the six years ending 1980, the fund clocked a spectacular 57.4% a year versus the market's 17.5%. Investors threw \$200 million at the fund as a shot to success on the back of such stocks as LIN, Taco Bell and American Quasar Petroleum. Then portfolio manager David Baker evidently lost his knack for picking hot stocks. In the seven years ending 1987, the fund turned in a dismal -23.2% a year against the market's 13.8%.

Also ranked low on the table is the

Sherman, Dean Fund, whose largest holding is Benguet, a Philippine gold and copper mining company. The fund's largest holding, bought for \$2 million shortly after the fund's 1967 launch, is now worth \$1.2 million. Recently Benguet's stock rose, as Philippine politics calmed down, helping the fund return 28% this year. "It [nondiversification] is a double-edged sword," says fund manager David Sherman. "It worked to our benefit in some years, and again to our benefit in others. Alas for the fund's shareholders, mostly against

Few eggs, one basket

Few nondiversified mutual and closed-end funds do well in both up and down markets. Here, three of the industry's top performers and three dogs.

Fund	Assets (\$mil)	Performance UP DOWN markets		Annualized 10-year return	Largest holding†
Claremont Capital*	559	B	A	23.1%	Amgen
Lehman Capital	86	A	B	20.5	Cray Research
Engex*	12	A	D	20.4	Organogenesis
Sherman, Dean	3	D	F	4.3	Benguet
Steadman Oceanographic, Technology & Growth	3	F	F	-0.1	Consolidated Freightways
44 Wall Street	7	D	F	8.4	TWA
S&P 500				16.2	

*Closed-end. †Based on most recent available information. Sources: Morningstar Inc., Chicago, Ill.; Thomas I. Herzfeld Advisors, Miami, Fla.; Forbes.

Statistical Spotlight

The 1972 Nifty Fifty did beat the market, but without one lucky hit the group would have performed rather poorly.

Paying for growth

By Evan Sturza
and Steven Ramos

DAVID DREMAN, a FORBES columnist and pension money manager, has long held the view that stocks selling at relatively low price/earnings multiples outperform the market. His studies have shown that a low-P/E strategy, if maintained for a sufficiently long time, would have beaten the market (FORBES, June 27).

The converse of this hypothesis, of course, is that stocks selling at unusually high price/earnings multiples are bad investments—that the market

overrates the growth potential of its favorite stocks. Is the converse true? Not necessarily. A review of the favorites of an earlier era indicates that there is at least some method in the market's madness for certain stocks.

Let's go back to the end of 1972, when the market was at a peak and institutional attention focused on a handful of high-growth, high-return stocks, the so-called Nifty Fifty. Among these favorites were Walt Disney, selling for 76 times earnings, and Polaroid, at 90 times earnings.

Had you taken a million dollars in 1972 and invested \$20,000 in each of these 50 stocks, you would now have

a \$3.2 million portfolio, excluding dividends. (For stocks tendered in takeovers we assumed proceeds were reinvested in the S&P 500.) This works out to an annualized return of 7.7%, considerably better than the S&P's average annual gain of only 5.4% without dividends. Inclusion of dividends would probably have narrowed the difference but it appears that the institutions were vindicated in their favoritism. Polaroid, as it turned out, performed miserably, and Disney was only about average, but one growth stock carried the day: Wal-Mart Stores climbed 59-fold.

We last looked at the Nifty Fifty concept two years ago (FORBES, Sept. 22, 1986). In that article, which was skeptical of high-multiple stocks, we published a list of current favorites. Our criteria for these stocks included P/Es between 20 and 50; return on equity of at least 12%; average annual earnings growth at least 9% over the past five years; 30% or more institutional ownership; and debt less than 1.5 times equity.

The 1986 list has fallen behind the market, but not far behind. It shows an average annual return of minus 1.5%, against the market's annual gain of 3.5%. These growth stocks were hammered in the 1987 crash, and 31 of the 50 are trading lower now than in 1986.

So are growth stocks a buy now? Kidder, Peabody, which has been tracking high-P/E stocks in its "Top Fifty" list since December 1972, thinks so. At the time the list first appeared, the median P/E on it was 55, or 3.1 times the market's median P/E of 18. The market has sunk to a recent P/E of 12.5. But the Kidder list has gotten cheaper still. Its median P/E is only 18, or 1.4 times the market's, according to Evelyn Feit, vice president of Kidder, Peabody.

By that test, growth can be bought fairly cheaply today. But two cautions are in order. One is that growth stocks are more volatile than others. In the 1973-74 crash, for instance, Polaroid and Avon declined by over 85%. The 1987 crash cut several of our 1986 Nifty Fifty stocks in half.

The other caution is that it takes a pretty large or lucky portfolio to capture the handful of real winners that make a growth portfolio pay off. Minus Wal-Mart, the 1972 list would have underperformed the market, with an average annual gain of only 4.7%. Twelve stocks on the 1972 list are still below their December 1972 prices, a terrible showing over a period in which the Consumer Price Index nearly tripled. ■

Not all are so nifty

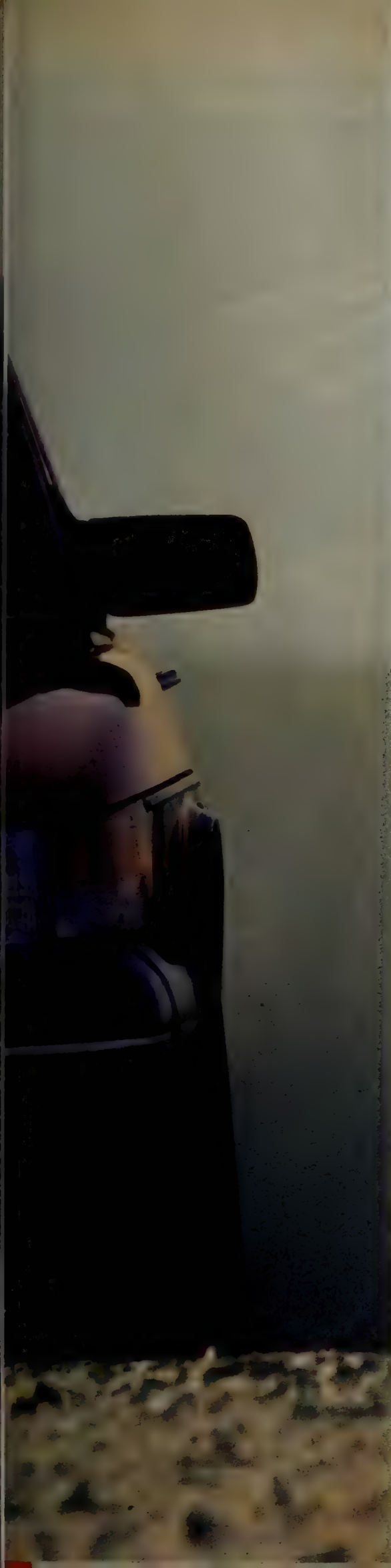
Most of the stocks on Nifty Fifty lists from 1972 and 1986 fared poorly. One big winner, Wal-Mart, enabled the 1972 list to outperform the S&P 500, but the 1986 list is still behind the market average.

Company	% change	Company	% change
1972 best		1986 best	
Wal-Mart Stores	5,789.9%	Harcourt Brace Jovanovich ²	74.5%
Marion Laboratories	539.1	Waste Management	53.8
Digital Equipment	506.5	Merck & Co	52.8
Electronic Data Systems ¹	421.2	Wal-Mart Stores	37.3
Marriott	353.3	Sigma-Aldrich	35.1
1972 worst		1986 worst	
Simplicity Pattern ¹	-82.7%	Shared Medical Systems	-48.4%
Avon Products	-82.4	Pic 'n' Save	-40.5
Emery Air Freight	-81.6	Ames Department Stores	-39.0
Xerox	-63.6	Analog Devices	-31.5
Ponderosa ¹	-54.5	Limited	-30.6

Acquired, proceeds reinvested in S&P 500 ²Includes cash and preferred payout



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The least expensive Saab you can buy comes with air conditioning, heated, reclining front seats and a removable Clarion sound system with electric antenna. All of which help make the 900 a very enjoyable place in which to have above-average driving fun.

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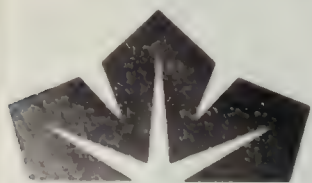
6 months to June 1988

6 months to June 1987

Ch

	6 months to June 1988	6 months to June 1987	Ch
PRE-TAX PROFIT	£711m	£642m	+11%
EARNINGS PER SHARE	28.02p	26.09p	+7%
DIVIDEND PER SHARE	7.60p	6.50p	+17%

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Municipal bond insurance is priced cheaply these days, and when it's cheap you should buy it.

INSURING SUCCESS

By Ben Webberman



When the business of insuring municipal bonds against default got under way a decade and a half ago, critics joked that what was guaranteed was the insurer's right to make a lot of profit. Municipal bond defaults were rare and insurance premiums were high. The insurers indeed pocketed a lot of profit.

Competition has changed all that. Today, the cost of insurance—paid by the investor in the form of a reduced yield on the bond—has dropped sharply. For those buying munis directly, the yield difference between an insured and a similar uninsured issue is narrow enough to make insurance a good buy.

At the start of this decade there was little incentive for an investor to buy an insured state or local government bond issue. An investor would have had to give up 35 to 50 basis points (0.35% to 0.5%) of yield to buy an insured (and therefore AAA-rated) 20-year bond instead of a comparable BBB.

Today spreads are so narrow that it hardly pays to buy anything but an insured bond. BBB-rated bonds yield only 15 to 20 basis points more than their insured twins. For bonds that would otherwise be A-rated, the

yield sacrifice for insurance narrows to 5 to 10 basis points.

Investors, for example, can buy a 7 $\frac{7}{8}$ % North Central Texas Health Facilities issue, Children's Medical Center of Dallas, due in 2018 to yield 7.96% with insurance provided by Bond Investors Guaranty Insurance Co. An uninsured A-quality North Carolina Eastern Municipal Power Agency 7 $\frac{1}{4}$ % of 2021 is priced to yield 8.05% to maturity. An uninsured Texas offering, of course, might be considered very low in quality these days—but with the insurance backing, the hospital bond is more solid than the North Carolina electric bond.

The current 5-to-10-basis-point difference between AAA insured and A-quality uninsured issues compares with a differential at other times of as much as 25 to 30 basis points, says Paul Finn, senior vice president of Ambac (American Municipal Bond Assurance Corp.).

Direct comparisons are not easy to find. But as this is written, a noninsured issue of the Jacksonville, Fla. Electric Authority, the 7 $\frac{3}{8}$ % of 2006, is priced to yield 7.6%. The same government-sponsored utility has outstanding some insured 7 $\frac{1}{4}$ % due 2009 that are trading to yield 7.45%. In other words, an investor gives up only 15 basis points of yield to get the backing from an underwriter, in this case Financial Guaranty Insurance Co. For an additional return of 50 basis points, take the chance with the uninsured security. For 15 basis points it's not worth the risk.

How solid is Financial Guaranty? It has \$418 million of capital (equity, subordinated debt and contingency reserves) against \$39.5 billion

of outstanding bonds for which it is potentially on the hook. But history suggests that only a small fraction of those bonds, probably far less than 1%, will go into default. FGIC is 85% owned by a group consisting of General Electric, General Re, Lumbermens Mutual, Shearson and J.P. Morgan. About 15% of the shares are in the hands of the public.

The oldest insurer is Ambac, started in 1971 and now over 90% owned by Citicorp. To overcome some quality criticism from rating agencies, Citicorp injected \$200 million of capital last year.

Ownership of Municipal Bond Investors Assurance Corp., started in 1974, is spread among four property/casualty companies and the public. While perhaps the best regarded, it has the greatest exposure to risk as measured against its capital. Newer companies include BIG (backed by American International Group, Bankers Trust, Geico, Solomon and Xerox) and Capital Guaranty Insurance Co. (owned by Fleet/Norstar, Constellation Investments, USF&G, Safeco and Siebag Finance).

The market, however, does not seem to discriminate among insurers. This is demonstrated by the yield scale for an issue of New York City general obligations recently brought to market. Several insurers backed various maturities among the bonds maturing serially. The scale of yields from the closest maturities to the longest has a smooth slope. There are no leaps or blips to reflect differing market perceptions of various insurers.

Nor does the market discriminate very much among insured bonds of different borrowers. Current-coupon insured bonds due, say, in 2008, yield about 7.35%, with most of the differences due to local tax considerations. A New York-based borrower will offer a lower yield than a Florida borrower because tax exemption is more valuable in a tax-guzzling state like New York.

Before 1980 less than 3% of municipal offerings were insured. This year a fourth of them will be.

Municipal bond insurance does more than bring peace of mind to the investor who intends to buy and hold to maturity. It also provides liquidity to the investor who needs to sell early. Unless the issuer is well known, an uninsured tax-exempt can often be unloaded only at a sacrifice price. ■

Ben Webberman is a contributing editor of FORBES magazine.

I'll stay with the much lower volatility, far higher appreciation and faster growth of large-capitalization stocks.

SMALL ISN'T BEAUTIFUL

By David Dreman



Big-cap stocks have had their day, we keep hearing. While they won't go the way of the brontosaurus, the place to be now is in small companies, which as a group have lagged badly for the last few years.

More and more consultants and money managers are making this case and backing it up with big bucks, believing small caps are dirt cheap. When interest rekindles, they argue, their performance will be sensational. Should you then make a big portfolio bet on these stocks?

I wouldn't, for the following reasons. No question small-cap stocks have been battered in recent years, but this still doesn't make them outstanding values today. *Financial Weekly* ranks stocks by P/E ratios for companies on the New York Stock Exchange, the Amex and over-the-counter (o-t-c). Using the NYSE composite as a proxy for large stocks and the Amex and o-t-c for smaller ones, some very interesting statistics come out.

First, looking at price/earnings ratios, the median on the NYSE is 11.9 times earnings, compared with

11.8 on the Amex and 12.2 over-the-counter. By this major value yardstick, large caps are marginally less expensive than small caps, despite their normally much stronger market share and financial staying power. In fact, the sharp drop in small-cap prices in recent years has only brought their P/E's down to somewhat more normal levels.

Are there other important dividend or earnings growth factors that make small caps gems? If so, they are difficult to find. Starting with dividends, the median yield today on NYSE stocks is 3.5%, compared with 3.1% on the Amex and 2.9% o-t-c. The big-cap stocks yield more now and yielded significantly more in the past than did the small caps. Do small caps then deserve premium prices because of explosive earnings? Again the statistics say nay. According to *Financial Weekly*, median earnings growth on the NYSE in the latest 12 months was 11.9%, sharply above the 2% for the Amex and 7.2% for o-t-c.

Finally, looking at some critical financial statistics, large caps again come up winners. Return on equity on Big Board issues was 13.4%, versus 10.8% on the Amex and 11.7% o-t-c. Aftertax profit margins on the NYSE were 5.9%, versus 4.5% on the Amex and 6.2% o-t-c. Small is wonderful, as Joseph Huxley wrote about another hypothesis, may be a "beautiful theory killed by nasty, ugly little facts."

As an investor, you might ask how well small caps have done over time. A number of academic studies purport to demonstrate that they have shown superior results, but as I have written in detail in previous columns (*FORBES*, Sept. 28, 1981, and

Oct. 19, 1987), and in my book *The New Contrarian Investment Strategy*, these studies have major flaws that significantly overstate small-cap returns. Seven years after my first column was published, the criticisms haven't been answered, while the theory continues to flourish.

The best index to measure small caps is the Value Line Composite, which weights equally the performance of 1,700 widely followed companies, giving it a strong small-cap bias. Value Line provides a chart, dating back to the beginning of 1969, comparing the performance of its index with that of the Dow Jones industrial average. Over nearly 20 years, the Value Line Average appreciated 39%, compared with 133% for the Dow. That's right, the 30 brontosaurus in the Dow outperformed the small caps by 3.4 times. If reinvested dividends were added, the Dow would have outperformed the small caps 5 to 6 times.

So why do so many investors favor these stocks? Studying the Value Line chart also provides the answer. Between 1969 and 1974 small caps were devastated as the Value Line Index dropped from 160 to 44, or 72.5%, a drop second only to the great bear market decline of the Thirties. The Dow by comparison fell 35% in the same period. The tremendous recovery in the Value Line Index from 44 to 160, or 260%, by 1981 resulted only in the index' reaching its 1969 level again.

But many small-cap advocates measure the average from the bottom in 1974, forgetting the previous high. No question small caps were badly undervalued in 1974 and for some years thereafter, but as the previous statistics make clear, the bargains are long gone. Even after the poor performance of the past few years, they are still fully valued.

No, I'll stay with the much lower volatility, far higher appreciation, faster growth and better fundamentals of large caps. If you agree, here are some you might consider looking at today:

- *American Home Products* (79), a leading manufacturer of prescription and ethical drugs; P/E, 13; yield, 4.6%.

- *Eastman Kodak* (44) is making a major turnaround after some difficult years; P/E, 11; yield, 4.5%.

- *Honeywell* (61) has suffered a number of nonrecurring losses that have driven the stock down sharply; P/E, 11; yield, 3.4%. ■

David Dreman is managing director of Value Management Inc., investment consultant, New York and author of *The New Contrarian Investment Strategy*.

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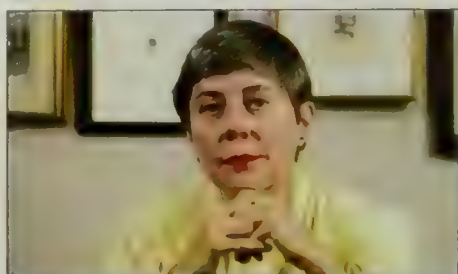
Stock Trends

MONEY & INVESTMENTS

Five percent for no bad news, 5% for continued good news, could mean a quick 10% gain for stocks.

HUNCHES

By Ann C. Brown



Once it gets over the October spooks, the stock market could surprise everyone with a quick 200-point-plus pop before year-end.

There is enough money on the sidelines to buy a couple of small countries, and a big, big bagful is earmarked for equities. Fund managers should begin to anticipate the next yearly event—the January rally—and start buying ahead, if only for a fast trade.

One reason the market could go up is simply that it has refused to go down over the past few months. Investors have shrugged off natural and man-made disasters alike—including the errors of commission and omission by the presidential candidates. There is a feeling in the land that, no matter who wins in November, nothing will change very much. The difference between the contenders, apart from a few emotional social issues, is more one of style than of anything substantive that could radically alter the direction of the economy or affect personal purses and prospects.

Meanwhile, the news from the business sector is encouraging. While we are far from having won the balance-of-trade war, the effects

of the lower dollar are continuing to be felt in increased U.S. exports. The decline in the price of oil should reduce the import bill in the months to come and allow the currency to remain relatively stable near term. (Next year, though, we could see a further reduction in the value of the greenback.)

Lower oil costs have also helped moderate the outlook for rising inflation, both in the U.S. and other major petroleum-importing countries. This has worked to keep interest rates from climbing, which otherwise might have been the case if per-barrel prices had stayed in the \$18 to \$20 range. The sharp drop in the price of gold over the past several weeks has reflected the weakness in the oil market. Investors who fled to the precious metal earlier this year as an inflation hedge are adjusting their thinking—and readjusting their portfolios accordingly.

Inflationary expectations have also been dampened by early indications that the unemployment rate may have seen its low. The pressure for wage increases may lessen as the relative number of persons employed starts to fall. Furthermore, consumers are showing signs of cutting back their expenditures, which should help defuse the demand-pull side of the equation. However, neither of these deflationary factors looks to be strong enough to suggest that the U.S. is in for a roaring recession anytime soon.

Third-quarter profits for most companies should continue to show the strength exhibited in the first half of 1988, although the comparisons with a year ago may not be as striking because last year's third quarter was the first time corporate

earnings benefited from the Tax Reform Act. In addition, the positive effects of restructuring by many companies and the synergistic results of all the mergers, buyouts and acquisitions of 1986-87 could continue to feed into corporate bottom lines. Also, stock buyback programs should contribute to increased earnings per share even if revenues remain the same or decline slightly.

All things considered, I'd give 5% for the absence of bad news and 5% for the continuation of good news for a possible 10% gain in the price of most stocks between now and year-end. Companies that intrigue me most now have strong, brand name franchises and/or skilled marketing organizations able to promote their products in an increasingly competitive world.

Gerber Products (49) appears to be growing up step-by-step with its traditional toddlers. GEB has diversified into a variety of businesses that take the newborn from high chair to day care to children's shoes, toys and clothes. This corporate expansion, together with the current baby boomlet now under way, could boost the company's earnings per share from \$2.66 last year to \$3.50 this year to \$4.00 for the fiscal year 1989 (ending March 1990). Look for the stock to sell above last year's high of 63 a year from now.

For some time *Clorox* (31) has been interesting primarily as a takeover candidate. Management got the message and is moving into new product lines and new basic product spinoffs, the latest of which, *Clorox Super Detergent*, is an effort to capitalize on the company's famous bleach name. My guess is that the product may garner a meaningful share of the market and that CLX could earn \$2.65 to \$2.75 per share for the fiscal year ending next June. Stock price objective: close to 40 per share by 1990.

Eastman Kodak (45) has marketing savvy that could help make a faster success of its recent *Sterling Drug* acquisition than many anticipate. EK is a company in transition, and it's a good bet the new management hotshots can profitably bring off the moves to diversify. Earnings estimates have been going up, with \$4.50 per share now predicted for 1988 and around \$4.95 per share for 1989. Eastman Kodak is selling only slightly above its postcrash low of 40 per share and 35% below its precrash high of 71. ■

Ann C. Brown is executive officer of the investment and financial consulting firm of Brown & Associates.

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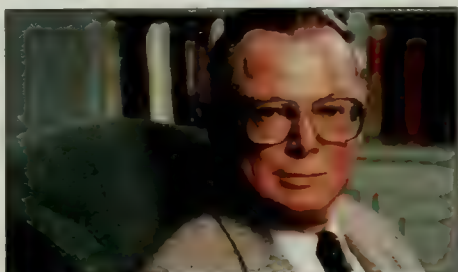


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Other things being equal, mutual companies offer the best value in whole life policies. Here, a look at some of those "other things."

MUTUAL INTERESTS

By Ashby Bladen



Trouble in the life insurance industry has got to be the most underreported financial story of the year. A good many life insurance companies have the same kinds of troubles that afflict the thrifts and the banks, but not many people outside the industry know about them. Nor is there any easy way for most policyholders or buyers to find them out. Most companies' annual reports to policyholders make Calvin Coolidge look downright loquacious.

The 10-ks of the life insurance business are the Capital Statements. They aren't as thick as a Manhattan telephone directory but they are much taller and wider—too expensive to distribute. They are on file at your state insurance department, but you'd have to be an expert to make head or tail of them.

There are, nevertheless, some sound, responsibly managed and low-cost companies. The one I know best, and can recommend the most confidently, is the Guardian Life Insurance Co. of America. I can recommend it confidently because I was its chief investment officer for ten years. But I am no longer connected with it, and my recommendation is entirely disinterested.

Ashby Bladen is a financial consultant and author of "How to Deal with the Development of a Financial Plan."

Two more that to the best of my knowledge are excellent companies are Massachusetts Mutual and Northwestern Mutual.

Here are some screens you can use to identify other companies that are likely to do a good job for you.

First, consider buying whole life insurance only from a mutual company that writes *participating* policies. "Mutual" means that the legal owners of the business are the policyholders themselves—they participate in the profits through policyholders' dividends. A mutual life insurance company will often charge a higher premium than a stock company because that's the safer, more conservative thing to do. But each year its actuaries guesstimate how much more it collected than it actually needed, and it refunds most of the excess as a dividend. That dividend is not taxable income; it's treated as a return of capital. Other things being equal, the net cost of insurance with a mutual company will be lower than that with a stock company by the amount of profit for the stockholders.

The fact that a mutual company is legally owned by the policyholders, of course, doesn't guarantee that it is run with their best interest in mind. Policyholder indifference when directors are being elected all too often results in top managers of a mutual life insurance company being accountable only to themselves. And several mutual company managements eager to expand their empires sold products such as guaranteed interest contracts, which build up total assets and liabilities but do nothing for the policyholders. The GIC business is so competitive that the companies

selling them pay out to the contract holders essentially all the earnings they make on the assets, leaving the policyholders with nothing but the risks. Those risks can be substantial, as *FORBES'* recent article on Equitable pointed out (Sept. 19). The only people who do well in GICs are the salesmen who place them.

So, if a mutual life insurance company has been doing a substantial business in GICs, or other new products that do not generate earnings for the policyholders, it's a sign that the company is most probably not being run in its policyholders' best interests.

But unless you are a life insurance expert, you are not likely to get that far analyzing a company's business or balance sheet on your own. So, a second screen can serve as a substitute—the Moody's ratings of life insurance companies that rank companies by their claims-paying ability. Well-managed and low-cost insurers are rated AAA. Ten companies, including the three mentioned above, are so rated. I see no reason to look further.

A third screen is whether top management is stable, and whether the company has found it necessary to let large numbers of people go. A well-run mutual company should never need to fire anybody except for cause, or to push anyone into early retirement. A simple test you can run on the annual report would be to check how long the top managers have been there. If half the senior officers have left during the last year or so, something is almost certainly wrong.

If you work for an educational institution, you should be aware of one exception that I would make to the mutual-company-only screen. The Teacher's Insurance & Annuity Co. is technically a stock company, but it writes only participating business—policyholders benefit from any excess premium income. I have a TIAA annuity and over the years the earnings on it have been excellent.

If you are buying a new whole life policy, you should stick to companies that pass all three screens. But if you already own a whole life insurance policy and now regret it, think twice before switching to another company. It's expensive. Don't do it unless you have good reason. The 1988 reports on some companies, when they appear next spring, will provide good reason. ■



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AD CLOSING:

Reservation: Nov. 14, 1988

Material: Nov. 21, 1988

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The good news is the consensus of successful gold timers is bullish. The bad news is there's only one of him—and he's under heavy pressure.

GOLD BULL AT BAY

By Mark Hulbert



Never fight the tape, they say, but what should you do when the tape is fighting itself? Currently the stock market seems to be worrying that the economy's strength might mean inflation, but the gold market appears increasingly alarmed about economic weakness and possible deflation. Both markets had been stalling while they sorted it out. But recently gold has begun to fall, breaking many technicians' support levels and leading to predictions of a major new bear market.

According to the best-performing gold-market timer, however, the current gold market is wrong—its recent action is a bear trap. Ben Garside, editor of the Santa Ana, Calif.-based *Garside Forecast*, is predicting inflation's return and a corresponding increase in the price of gold.

Virtually all of his fellow investment-letter editors disagree. But none of them has as good a long-term record in calling turns in gold's price. In fact, among those gold-market timers my *Hulbert Financial Digest* has tracked since 1985, only Garside has been able to better a simple buy-and-hold strategy.

Mark Hulbert is editor of the Alexandria-based Hulbert Financial Digest and author of the Second Hulbert Financial Digest, published by America Books.

After nearly a decade of rigorously monitoring investment newsletter performance, I have learned to pay attention when there is a stark divergence between the best long-term performers and the consensus of all advisers. Earlier this summer, for example, I noted in this space that in contrast to the bullishness of the average bond-market timer, the best performers were uniformly bearish. As they expected, bonds fell. At their mid-August lows, bonds were 5% below the levels prevailing when the best performers turned bearish. (Since early September, by the way, the best performers have become more bullish than the consensus.) Similarly, after October 1987's crash the best-performing stock-market timing newsletters turned significantly—and correctly—more bullish than the average investment adviser.

The current bullish divergence between the best gold-market timer and the average of all of them first emerged earlier this year (see my *FORBES* column, May '90). Garside turned bullish in February, at a moment when many gold-market timers were growing unprecedentedly bearish, including such well-known and long-standing gold bulls as Howard Ruff. Gold was then about \$440 per ounce. It did get as high as \$465 in June, but more recently it has fallen right back to below \$400. So Garside's great expectations have not quite been fulfilled.

But Garside has not given up yet—at least by press time. The contrast between his bullishness and the bearishness of his fellow advisers remains almost as stark today as it was earlier. Apart from Garside, only two other gold tim-

ers among the 20 my *HFD* monitors currently are bullish on gold (Jim Dines of *The Dines Letter*, who has reversed his earlier bearishness, citing inflation and chart patterns, and Norman Fosback and Glen Parker of *Market Logic*, who use a mechanical model based on reported year-over-year inflation). All the rest are advising that their subscribers be out of the gold market or actually short.

How does Garside justify his bullishness? He gives few clues in his letter, although it is clear that he is more a technician than a fundamentalist. But there is no doubt about his market-beating performance. An investor who switched into and out of gold bullion and a money market fund on Garside's signals since the beginning of 1985 would have nearly doubled the return of a buy-and-hold strategy (69% to 39% through the end of August 1988). And it wasn't simply one lucky call that led to his margin of victory either. I calculate that his market timing advice beat a buy and hold in each of the calendar years 1985, 1986 and 1987.

Needless to say, a lot more is riding on this question than whether Garside's minority of one turns out to be right about gold. Divergences between the gold and stock markets sometimes presage major shifts in the investment climate. One month before last year's crash, for example, I noted in my column dated Sept. 21 that gold was showing good relative strength compared with stocks and that investment newsletters were growing more bullish on gold. Since gold and stocks are not supposed to act well in tandem for very long, I concluded that this "could be another argument that the great equity bull market of the 1980s is drawing to a close."

The situation today is reversed. Gold is showing poor relative strength, and the consensus of advisory opinion is distinctly bearish about its prospects. Could this be good news for stocks?

Obviously, this hope can be abandoned if Garside turns out to be right about gold. I should note that he has been much less successful at timing the stock or bond markets, however, and it is disconcerting that he comprises the entire class of gold advisers who have beaten the market and whose opinion we would normally seek. But he can't be dismissed. ■



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Edited by Thomas Jaffe

Temple worship

With rumors rife over possible restructuring moves at Time Inc., Streetwalker thought it an appropriate moment to look at an earlier fruit of such labors, Temple-Inland Inc. Headquartered in Diboll, Tex., this \$1.6 billion (sales) forest products company was spun off by Time in January 1984. (There are 27.7 million shares outstanding; insiders own less than 5%.) Temple manufactures linerboard and pulp, two commodities that have been running full out for the past two years. Earnings, as a result, are going through the roof. Last year Temple was up 78%, to \$4.69 a share; in 1988 analysts are looking for another huge gain, to \$7.40 or so. The stock? From a low of around 20 four years ago, by last October it had spurted to almost 70. Then came the crash, toppling Temple to 35. Recent NYSE price: 52 1/2.

That Temple hasn't fully recovered probably is a result of clouds on the horizon. If there's a recession, the pricing strength that linerboard and pulp have enjoyed of late could start to wither. (Bleached board, another Temple mainstay, has proved to be less volatile.) And weakness in the housing market has hurt Temple's building products division. But even factoring in these problems, analysts think the current paper cycle is so strong that 1989 earnings should come in between \$8 and \$9.40 a share. With the shares selling for just 5.6 to 6.6 times next year's anticipated earnings, then, Temple-Inland could be the ticket for any investors looking to catch a late-cycle ride.

The Sun also splits

The latest restructuring in the petroleum industry promises to be Sun Co. of Radnor, Pa. (FORBES, Aug. 22) At \$9.5 billion in sales, Sun is the tenth-largest integrated oil company in the U.S. Pending shareholder approval, Sun's domestic exploration and production (E&P) operations will become a separate enti-

ty in a one-for-one tax-free distribution of shares. The remaining Sun Co., which will continue to trade on the Big Board as well, will consist primarily of Sun's refining and marketing (R&M) business—its vast chain of Sunoco service stations. In addition, it will include all the company's overseas exploration and production activities (E&P), U.S. coal operations, Canadian synthetic crude output, real estate and leasing. What's more, Sun is committed to maintaining its \$3 annual dividend rate, a current yield of 5.2%. Upstream E&P is projected to pay out \$1.20 a year;



Sunoco service station
Out for a spinoff.

downstream R&M, \$1.80.

Other news: In the second quarter Sun took a \$300 million aftertax charge to cover layoffs and asset sales that will result in an estimated \$80 million of combined annual savings for the new entities. Then, in July, Sun agreed to buy refiner and marketer Atlantic Petroleum Corp. for \$513 million. This will enhance Sun's penetration of the East Coast market. The company will continue its aggressive share repurchase program.

What's it all worth? Analyst Bruce Lazier of Prescott, Ball & Turben thinks the sum of the two parts could exceed \$70 and eventually reach \$85—nicely above Sun's recent NYSE price of 57 3/4. Lazier projects the exploration/production side's cash flow at \$7 to \$8 a share, which should price these assets at \$40 or more over the next two years. As for the remaining Sun Co. downstream assets, Lazier says they will have virtually no net debt, cash flow of \$6 to \$6.50 a share, and annualized earnings power of \$4-

plus per share in 1990, after restructuring and cost savings. So the shares, says Lazier, should reach \$45 by 1990. The best deal, Lazier recommends, is to buy Sun now, before the spinoff takes effect.

A brace of self-funders

To the many investors concerned about rising interest rates, analyst Elliott Schlang of Cleveland's Prescott, Ball & Turben is recommending companies that could benefit from such a trend: those with self-funding balance sheets. Having hoarded their liquidity rather than take on additional debt, they now are beginning to register incremental income generated from higher rates.

Among Schlang's favorites is \$395 million (sales) Bob Evans Farms, Inc., an operator of more than 200 family-style restaurants, primarily in the Midwest, and producer of sausage under the Bob Evans Farms and Owens Country Sausage trademarks. As of July 31 long-term debt at Columbus, Ohio-headquartered Evans represented less than 2% of total capitalization. In the fiscal year ended Apr.

1988, the company netted \$1 a share its 17th consecutive year of record earnings.

Over the last five years earnings have compounded at an annual 15%, and Schlang is predicting a 13% increase for the next three to five years. He cites the addition of 23 new restaurants and the further integration of Texas-based Owens (acquired in January, 1987) as factors that should help Bob Evans earn more than \$33 million, or \$1.15 a share, on sales of \$45 million for the fiscal year ending in April. The stock—recent o-t-c price of 16—sells for 14 times his fiscal 1989 estimate, the low end of the multiple Bob Evans has carried since 1981. There are 29.3 million shares; insiders own 16%.

Another Schlang pick for its balance sheet strength is \$197 million (estimated 1988 sales) Lilly Industrial Coatings, Inc. Indianapolis-based Lilly produces finishes that are applied in the factory by furniture makers and manufacturers of metal products. A

May there was virtually no short-term debt, long-term debt was 9% of capitalization and the current ratio of assets to liabilities was 2.7 to 1. Stetson expects record earnings of \$20 per share for the fiscal year ending Nov. 30, and at least \$1.35 a share for fiscal 1989. Recent o-t-c price for 9.1 million shares (less than 10% which are closely held) was 16.

Heavy metal

The hostile bid by Harry Oppenheimer's Minorco S.A. for huge U.K. mining concern Consolidated Gold Fields Plc. has turned the spotlight on RTZ Corp. Plc. With sales of £3.4 billion, London-headquartered RTZ, formerly Rio Tinto-Zinc, is the world's largest mining company. There are some 776 million ordinary shares listed on the London Stock Exchange; American Depositary Receipts trade over-the-counter, where they were recently priced at 29.

RTZ' worldwide interests in copper, aluminum, iron ore and the like have benefited mightily from strong metals prices over the past year or so. Robert Davies, Shearson Lehman Hutton's London-based mining analyst, believes mineral prices have peaked. But he doesn't think RTZ' earnings have. As Davies notes in a recent report, RTZ is a low-cost operator of mines, and adds value where possible to what it mines, tailoring specific products for individual customers. An Australian company it controls, for instance, has started an operation that will supply aluminum wheels for Japanese automakers. RTZ also recently bought MK Electric, a highly regarded U.K. producer of wire and switchgears, which now can be supplied with copper from within the RTZ universe. The next step: By encouraging MK's move into the manufacture of security and fire protection systems, RTZ sees an opening to break into the European and North American markets.

Meanwhile, RTZ has raised more than £1 billion in its home market this year by selling a cement producer, an aluminum window supplier, an aggregates business and oil and gas properties. Still to be divested, says Davies, is its 29.9% stake in U.K. oil producer Lasso Plc. He thinks this will fetch more than £250 million. Davies thinks RTZ will earn \$3.54 per ADR in 1988, up 31% over last year. He looks for \$3.94 in 1989. With the ADRs recently trading for 29, he guesses that the stock's a strong buy.

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Fifty years ago

(From the issue of October 15, 1938)

"Another item that will be especially appreciated in winter is a gadget that is easily mounted on any car to signal the direction in which the driver is about to turn. Instead of opening the window and stretching his arm out on a cold and wet winter day, he can simply touch the lever attached to his steering wheel and an indicator, fixed in any desired position on the back of the car, will be lighted. . ."

Twenty-five years ago

(From the issue of October 15, 1963)



ABC's boss Leonard Goldenson

"Ripping up at least half of its old nighttime schedule, ABC-TV started the new season with more new prime-time shows than anyone else—14. This compared with just eight new entries on CBS-TV, which is sticking to the big-name formula that gave it its best year in history last year. It compares with ten new ones on NBC-TV, which counts on new dramas and old movies to hold second place."

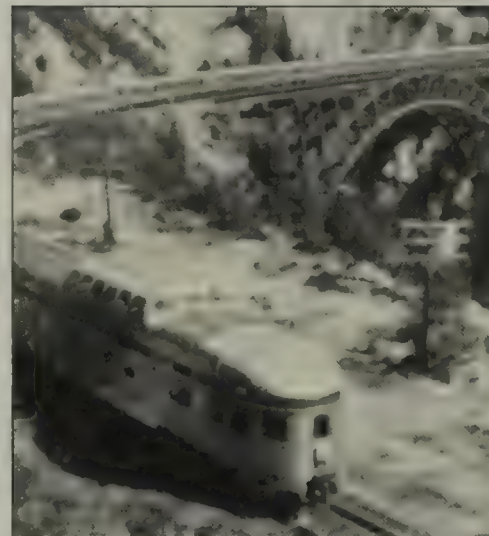
"There aren't many businessmen who can make this claim: J. (for Joseph) Irwin Miller, 54, once took on both General Motors and Mack Trucks—and he licked them both

handily. This was in the early Fifties. Miller's Cummins Engine Co. then was running neck-and-neck with GM and a little ahead of Mack in diesel engines for trucks. Today, Cummins has about 60% of the market, Mack 22% and GM is down to 16%."

Ten years ago

(From the issue of October 16, 1978)

Paul Gehl as BlackStar



Canadian Pacific passenger train in the Canadian Rockies

"Thanks to the heroic efforts of a management team headed by Chairman Ian Sinclair, Canadian Pacific now derives more than 60% of its revenues and 72% of its profits from nonrailroad sources. While earnings of many North American railroad companies have stagnated, Canadian Pacific's have risen steadily—from 97 cents a share in 1969, the year Sinclair took over, to \$3.31 last year and probably to \$3.75 in 1978. . ."

"A seat on the New York Stock Exchange, FORBES reported last year, could be had for \$35,000, while a New York City taxicab medallion sold for \$50,000. With the market becalmed in the doldrums, would exchange seats, FORBES wondered, end up with 'chiefly commemorative value'?"

"The big turnaround in subsequent stock market trading has answered that question. This September the asking price for a Big Board membership (what 'seat' really means) was \$105,000, a more than \$30,000 jump over the price the month before. . . And taxi medallions? Their going rate has moved from \$50,000 a year ago to \$60,000 today."

Avarice is generally the last passion of those lives of which the first part has been squandered in pleasure, and the second part devoted to ambition.
SAMUEL JOHNSON

A life spent in constant labor is a life wasted, save a man be such a fool as to regard a fulsome obituary notice as ample reward.
GEORGE JEAN NATHAN

There is no moral precept that does not have something inconvenient about it.
DENIS DIDEROT

A man is called selfish, not for pursuing his own good, but for neglecting his neighbor's.
RICHARD WHATELEY

Nothing is enough to the man for whom enough is too little.
EPICURUS

A covetous man does nothing well till he dies.
THOMAS WILSON

The strongest phases of our new American philosophy are the desire for enormous business, more wealth and less liberty, more despotism and less freedom of education, which always accompanies the absolute rule of the few.
THEODORE DREISER

It's a kind of spiritual snobbery that makes people think they can be happy without money.
ALBERT CAMUS

The opinion of the public is a judgment which the honest man should never entirely accept and which he should never follow.
NICOLAS CHAMFORT

Thoughts on the Business of Life

It may be that I have a streak of the idealist, a dreamer, a seer of visions. But I certainly believe that in the highest financial circles—among men of multiplied millions—there is now traceable symptoms of regeneration, of turning away from the mad chase after mammon, of a realization that it availeth a man nothing if he gains millions and loses all that life possesses. Measured by life's real standards, by the things that count, many of our up-to-the-neck, 24-hours-a-day slaves to business, earn precious little in a year.
B.C. FORBES

After hypocrites, the greatest dupes the devil has are those who exhaust an anxious existence in the disappointments and vexations of business.
CHARLES CALEB COLTON

There are two things to aim at in life: first, to get what you want, and after that to enjoy it.
LOGAN PEARSALL SMITH

All idealism is falsehood in the face of necessity.
FRIEDRICH NIETZSCHE

Time is the measure of business, as money is of wares.
FRANCIS BACON

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The unfortunate thing about public misfortunes is that everyone regards himself as qualified to talk about them.
E.M. CIORAN

All men have happiness as their object: there is no exception. However different the means they employ, they all aim at the same end.
BLAISE PASCAL

If virtue were its own reward, it would no longer be a human quality, but supernatural.
VAUVENARGUES

Success generally depends upon knowing how long it takes to succeed.
MONTESQUIEU

A Text . . .

And I say unto you, Make to yourselves friends of the mammon of unrighteousness; that, when ye fail, they may receive you into everlasting habitations.
LUKE 16:9

Sent in by Harold Crown, Los Angeles, Calif. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Those who make the worst use of their time most complain of its shortness.
JEAN DE LA BRUYÈRE

Living up to ideals is like doing everyday work with your Sunday clothes on.
ED HOWE

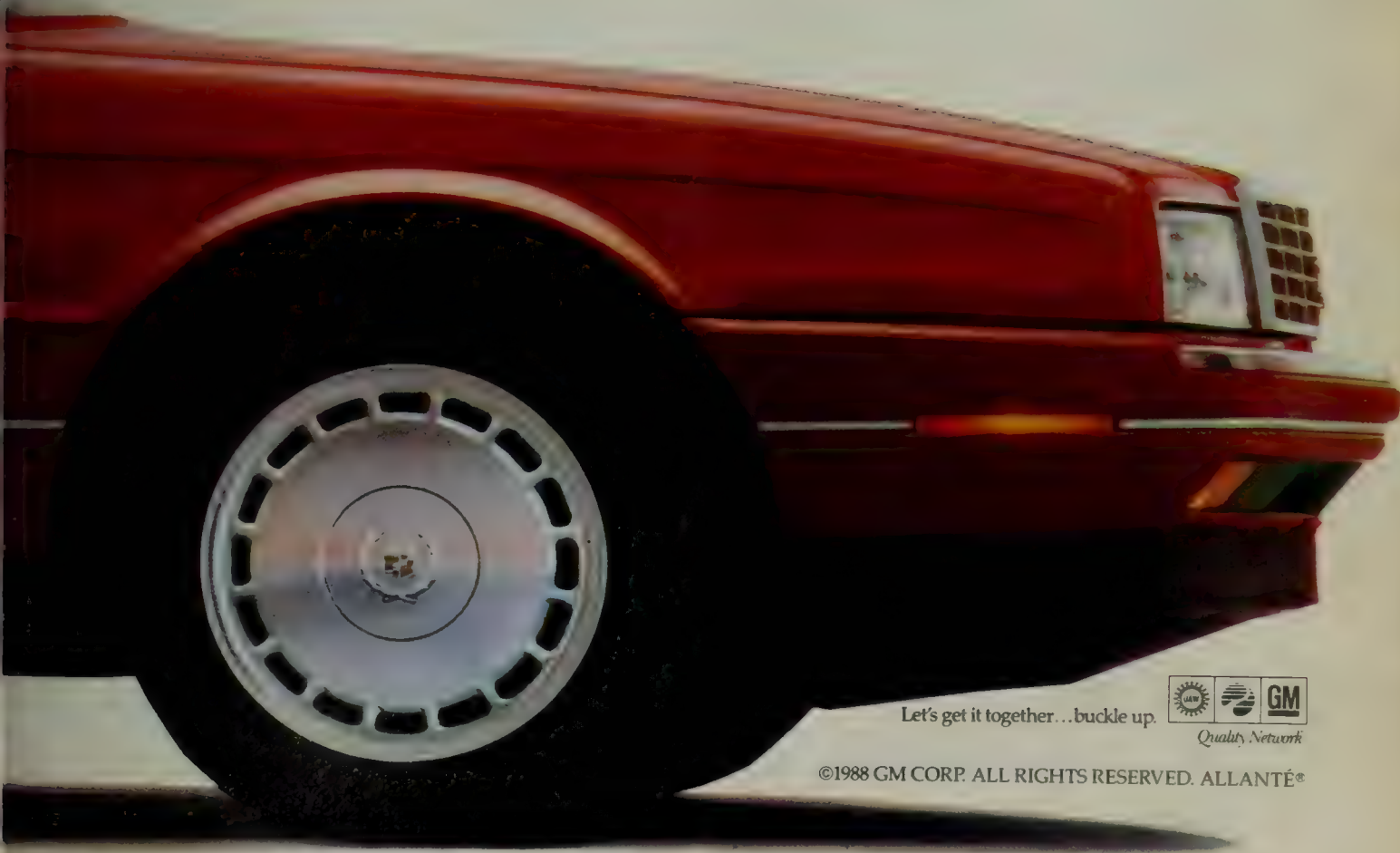
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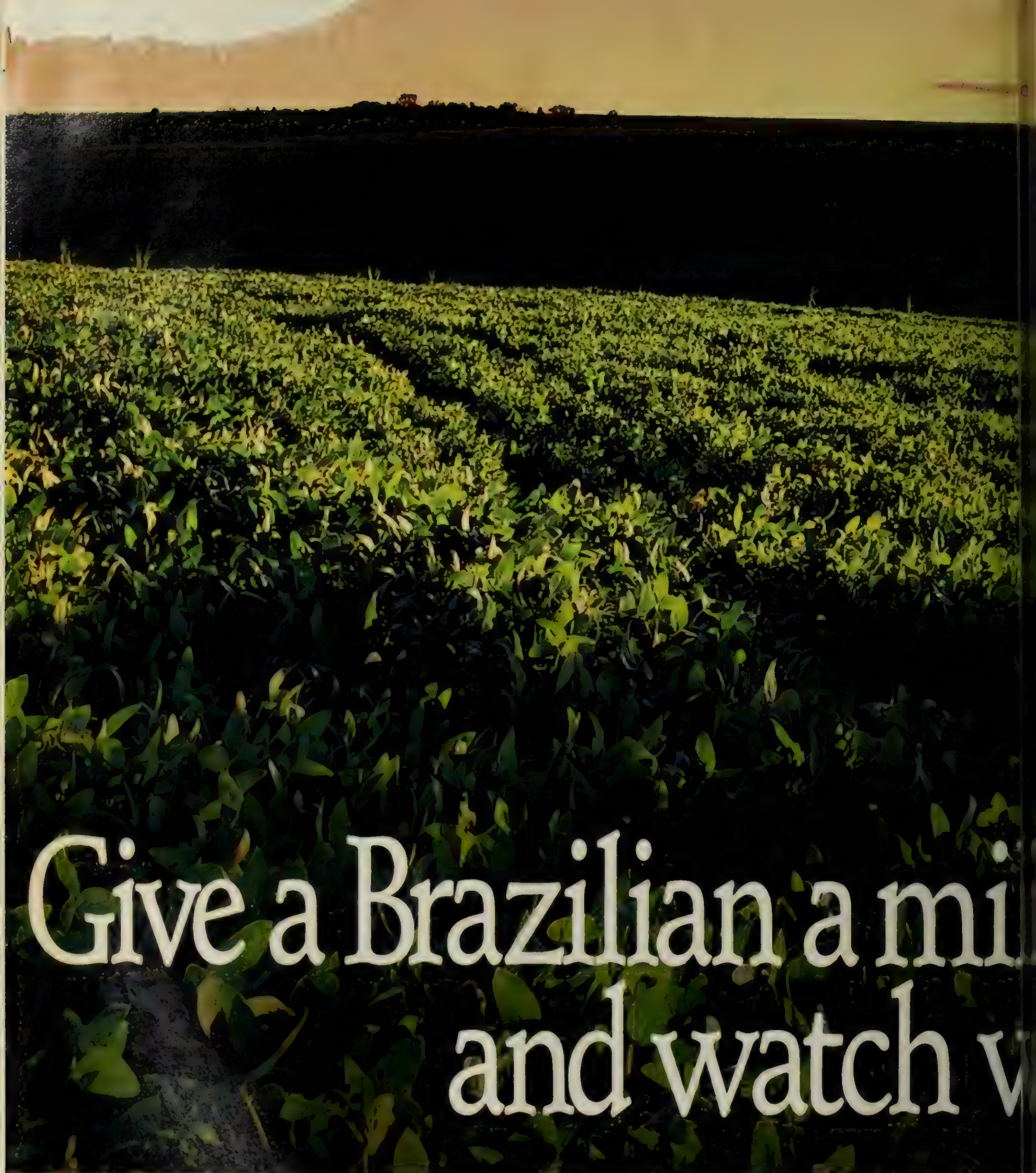


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Quality Network

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Give a Brazilian a mile and watch v

In southwestern Brazil, in the state of Paraná, not far from the majestic roar of Iguaçu Falls, you will find a land so fruitful, you may find it hard to believe it was once a wasteland.

Because here, as far as the eye can see, the once barren hills of Paraná are now ringed by soybean plants and a variety of other crops.

Achieving this transformation, from wasteland to farmland, took years of labor by a group of very dedicated people. Brazilian people.

And thanks to a major investment in agricultural development, these people are now finding new and better strains to make the rich red soil of Brazil even more productive tomorrow.

A photograph of four people standing in a vast field of green crops under a warm, golden sky. From left to right: a man in a dark suit and tie, a woman in a white lab coat holding a clipboard, a man in a plaid shirt, blue jeans, and a straw hat with his arms crossed, and a man in a white lab coat. The field stretches to the horizon.

On acres of wasteland that happens.

This is Brazil today. A country whose pride in past accomplishments is balanced by a very realistic vision of its needs for the future.

And nobody understands this vision, or the opportunities you can enjoy in Brazil, like Banco do Brasil.

True, when some people first see the

vast garden called Paraná, they call it a miracle.

But we, and the people who farm this land, know better.

No miracles here. Only hard work.



BANCO DO BRASIL

The Richest People in America

The Forbes Four Hundred



OCTOBER 24, 1988
VOLUME 142
NUMBER 9

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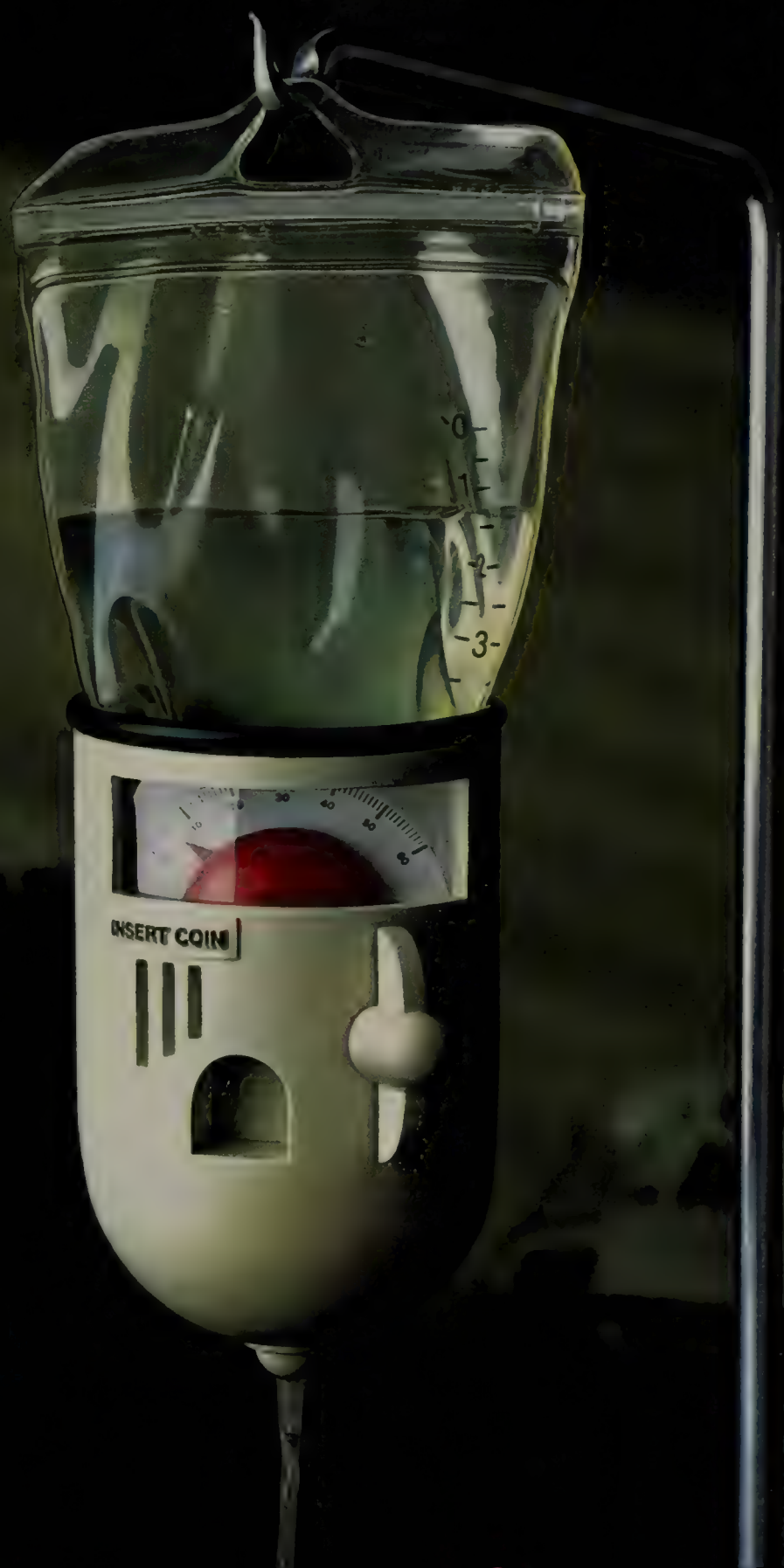
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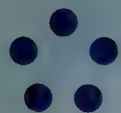
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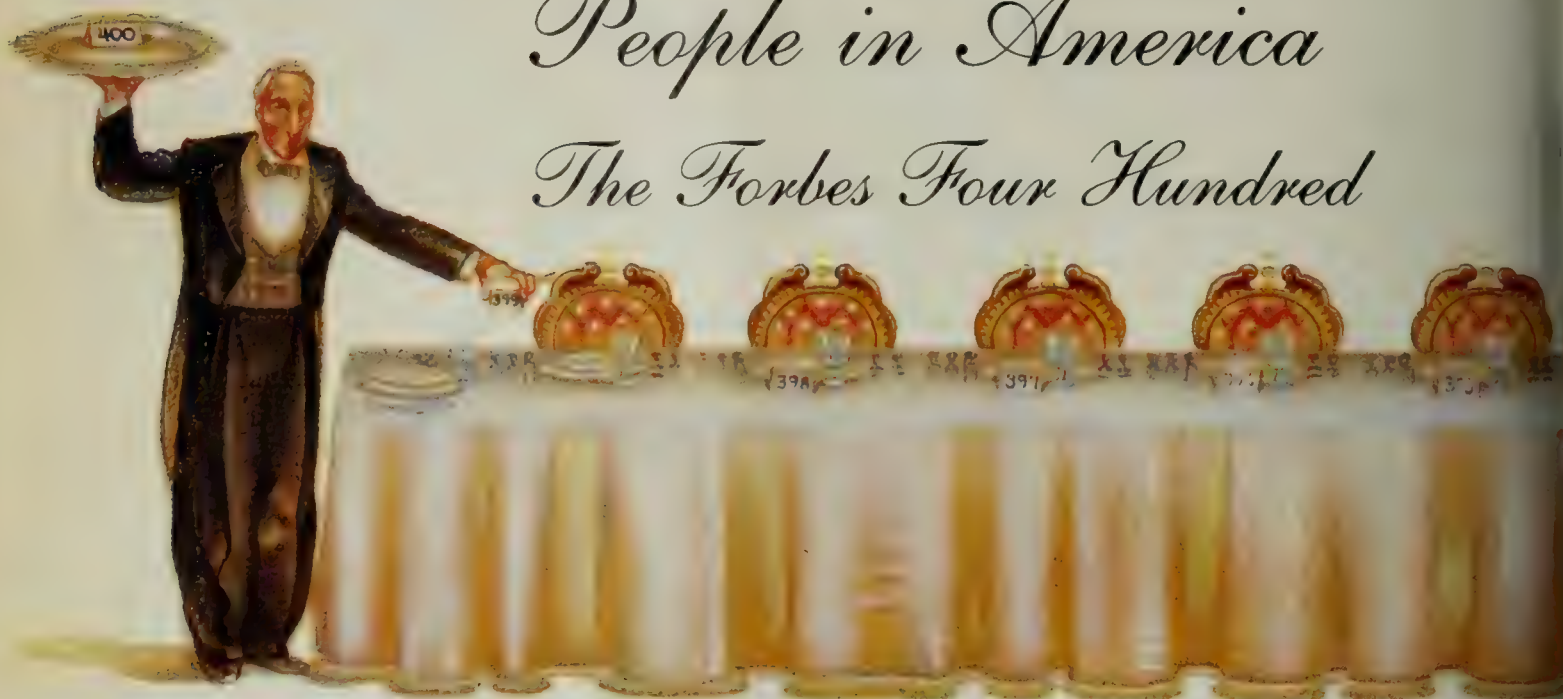
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October 24, 1988 Volume 142 Number 9
Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription \$48 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1988 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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It takes a tough journalist

"How can I get off your list?" one of the country's younger billionaires on The Forbes Four Hundred recently asked me. Easy, is our stock reply: Lose your money, give it away or die. Our billionaire reflected only a second before deciding that it was too high a price to pay for getting his name dropped. "In that case," he said, "I'd like to get some of my friends on the list," and gave us names of half a dozen promising prospects.

We followed these leads, just as we follow literally hundreds every year. Since FORBES pioneered, in 1982, the systematic measuring and monitoring of large-scale wealth in America, Harry Seneker and his team of reporters have been responsible for deciding who does, and doesn't, get included among The Four Hundred. At times like this we think Seneker would make a good banker. He doesn't accept mere claims but looks hard at both the assets and liabilities of any Four Hundred candidate. There's no fluff in our figures. One recent copycat "rich list," for example, says publishing's Newhouse family is worth \$8 billion. Seneker says that magazine failed to take into account the possibility of debt and a huge tax liability. Seneker figures that the Newhouses are worth closer to \$5.2 billion.



FORBES' Seneker (center) and team

In this endless following-up on tips, poring over documents and interviewing people in the know about wealth, Seneker had the help of John Anderson, Patrice Duggan, Dolores Lataniotis, Christopher Palmeri, Claire Poole, and interns Kristin Lipani and Gina Romero, as well as support from our incomparable copy desk and art, production and photocomposition departments. Additional acknowledgments, page 320.

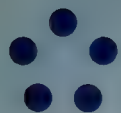
Do we find all the rich people? Of course not. The economy is too big, too complex. Drexel Burnham's Michael Milken once told an audience that our list had missed a few hundred ultrawealthy people. Maybe so, but we are missing fewer each year, as our files improve and our research methods sharpen. In some figures are estimates, not audited totals, they are still close enough to present a stunning mosaic of great wealth in America.

An American taipan

Among the most intriguing new names on the list is billionaire Charles Feeney. While many Westerners complain they can't sell to the Japanese, Feeney and his partners have built, from scratch, a company, Duty Free Shoppers Group Ltd., whose lifeblood is the Japanese consumer. "Rich, ruthless and determined," by Andrew Tanzer and Marc Beauchamp, is full of lessons for all business people looking to do business with Japan. Starts on page 36. Is all this wealth really necessary? Author George Gilder argues brilliantly that capping an individual's wealth would destroy this country's much-envied entrepreneurial process—but not for the reasons usually given. See "Tied to the masts of their fortunes," page 348.

Lawrence Minard

Deputy Managing Editor



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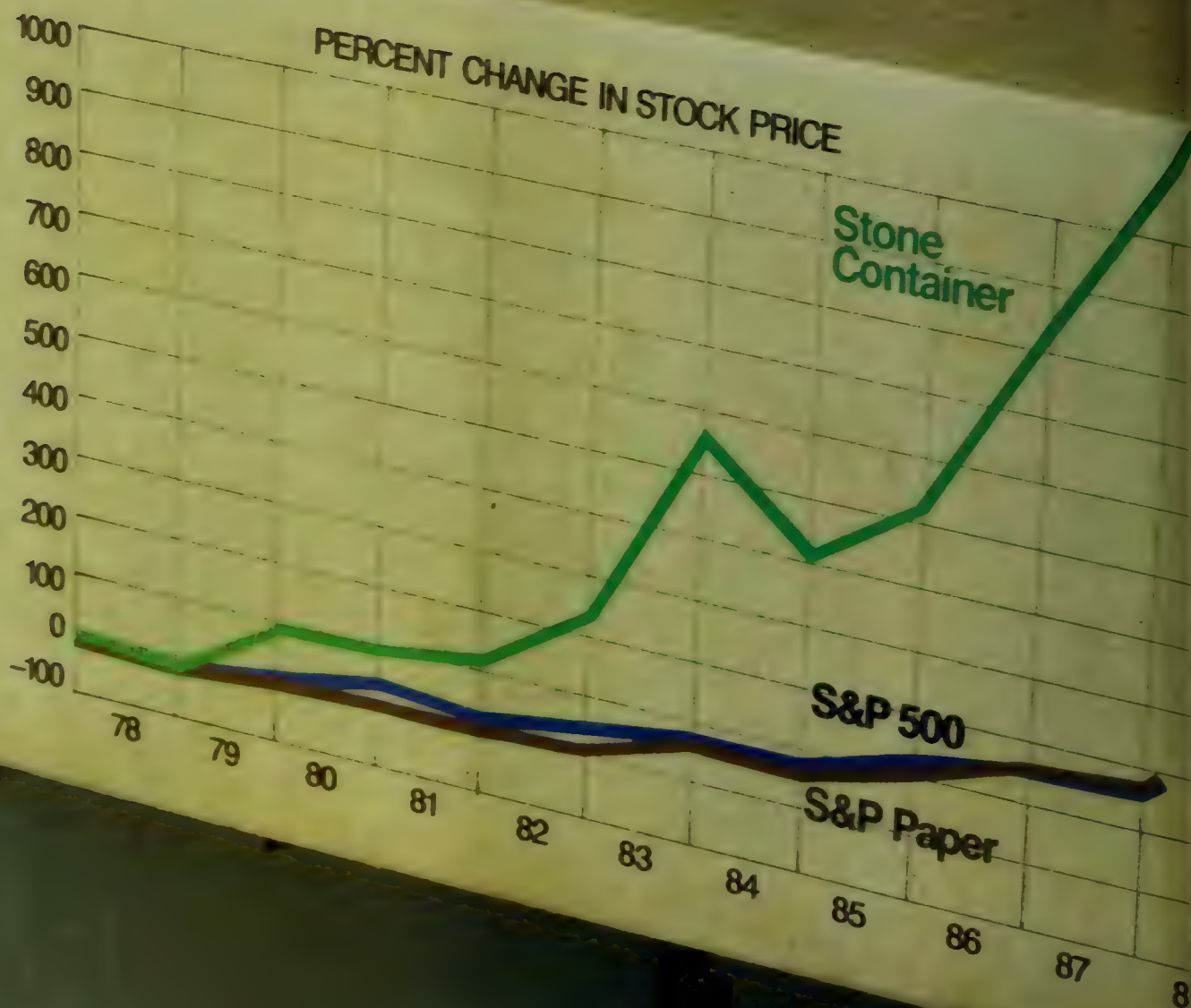
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Follow-Through

Maltzing to the bank

Oct. 28, 1985

Milton Maltz



Mike Steinberg/Black Star

Cleveland-based Malrite Communications was riding high when FORBES talked with chairman and controlling shareholder Milton Maltz three years ago. Revenues in 1984 were up 64% from 1983, reaching \$64 million, and cash flow was up 93%. Malrite was enjoying an unsurpassed record of turning terrible radio and TV properties into big moneymakers. With 75% of the common stock, Maltz was worth at least \$71.5 million. Since then the picture has changed.

Malrite began an aggressive expansion program in 1986, spending \$75.3 million for three underdeveloped Capital Cities/ABC radio stations—KLAC-AM and KZLA-FM in Los Angeles and KKHT-FM in Houston. Maltz hoped to turn them around, much as he had a little New Jersey jazz and "beautiful" music station, which he bought in 1983 for \$8.5 million and turned into Top 40 WHTZ-FM (or Z-100), New York City's top-rated radio station. He also bought interests in two more independent TV stations—70% of WOIO-TV Cleveland and 80% of WSTE-TV San Juan Ponce, Puerto Rico.

But Malrite grew too fast. In 1986 revenues reached a record \$88.5 million, yet Malrite lost \$7.16 million. Last year sales rose to \$97.3 million, but losses were still \$6.4 million. Malrite was strapped by development costs at its new stations. Meanwhile, the Houston radio station was hurt by the drop in oil prices and the subsequent drop in radio buys, the TV stations by slow growth in national spot advertising.

Maltz tried selling off assets. He gained \$2.2 million pretax on his \$10.7 million sale of Denver's KMVP-AM and KRXV-FM but will lose \$8 million on Houston's KKHT-FM. The stock, predictably, collapsed.

Now Maltz is trying to take the company private. In August he offered to buy all its publicly held common and Class A shares for \$10.25 each—a 127% premium over the recent low for the common and a 141% premium

over the Class A. To finance the deal, the Bank of New York will put up \$170 million, Shearson Lehman Hutton will underwrite up to \$90 million of debentures, and the management group will provide \$60 million.

But some shareholders are suing. Why? Maltz' offer works out to 13% less for the common shares than they fetched three years ago and only 2.5% more than the Class A shares were worth when issued as a stock dividend in 1985. Moreover, because the company is finally turning around and is expected to be profitable by 1989, analysts figure shares are really worth \$16 to \$20 each. A group of shareholders filed in Delaware's Chancery Court, charging unfairness and a breach of fiduciary and other duties by Malrite officials.

And Maltz? The value of his stake in Malrite, at the tender price, is up 33% since the 1985 story, to \$95 million, even though the stock is down from subsequent peaks. If the deal goes through and the turnaround is successful, his stake in Malrite will be worth even more and he will have waltzed off—strike that, Maltzed off—with a nice piece of the public's hopes for profit.—Claire Poole

Still a rising star

Fall 1983

Red McCombs

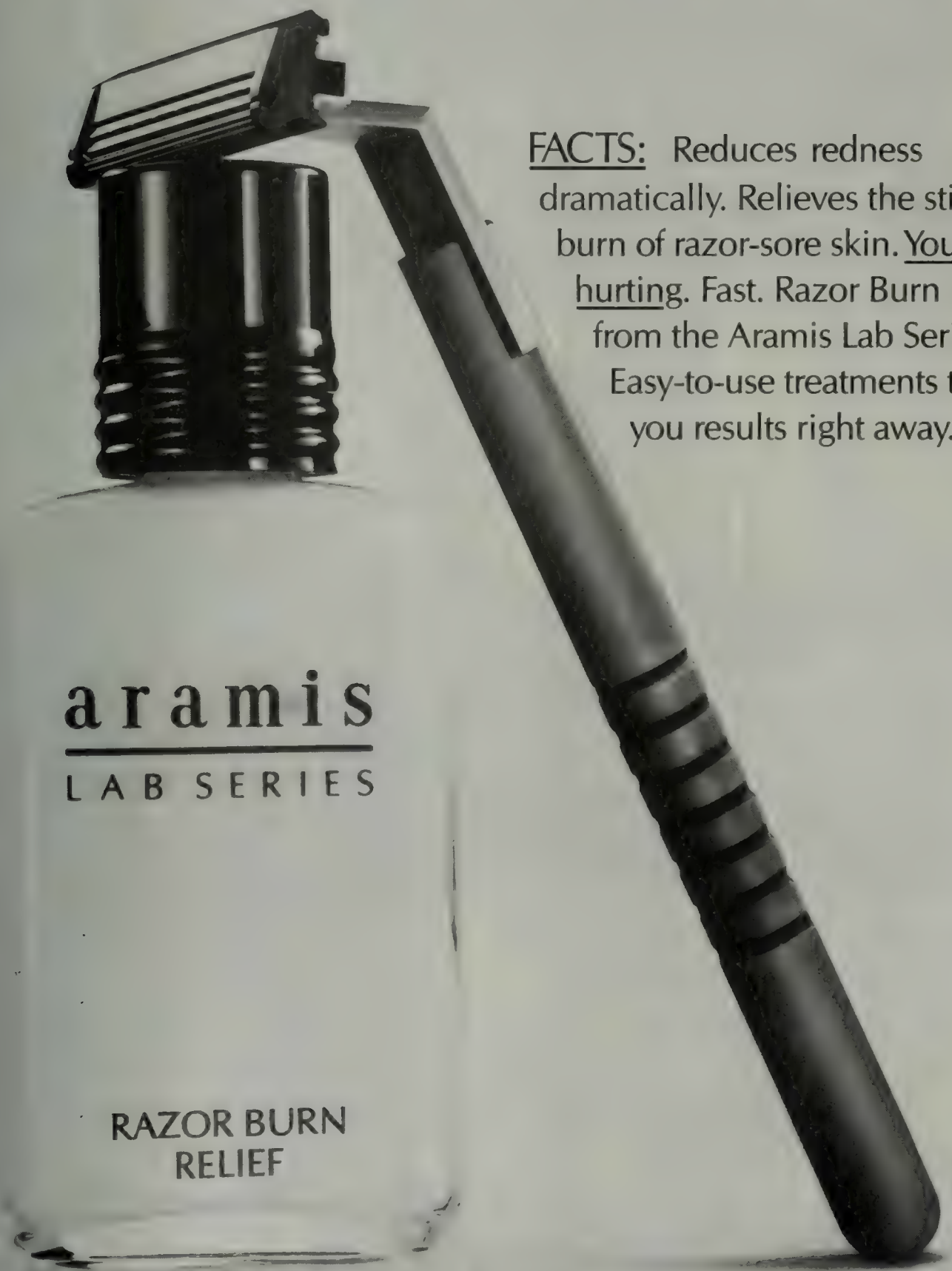


Herman Kokojan/Black Star

Red McCombs' one-man conglomerate, which consisted of 23 car dealerships, radio stations, a movie financing company, cattle, oil interests, banking, insurance and real estate, was worth \$75 million—\$50 million shy of the minimum on The Forbes Four Hundred five years ago. McCombs' interests were so numerous, FORBES noted, that sometimes the only way his wife learned about his latest deals was by reading the morning paper. But McCombs might one day yet be on our list, we wrote.

Since the minimum for The Four Hundred is now \$225 million, McCombs is still somewhat shy of making the list. The 61-year-old Texas tycoon has upped his net worth to an estimated \$170 million, maintaining that annoying \$50-million-plus

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gap. Blame the Texas oil bust—but McCombs hasn't let it slow him down. McCombs is steadily increasing his empire of car dealerships, which hawk everything from Fords to Hyundais. He now owns a part- or whole interest in more than 30.

Along the way McCombs unloaded a few of his assets, including a Colorado ski resort and his two-thirds share of the National Basketball Association's Denver Nuggets, which he sold in 1985 for about \$20 million, a \$16 million profit.

In June McCombs also paid \$47 million to buy a 90% interest in the NBA's San Antonio Spurs. That gave him some debt, but he has a new coach (Larry Brown), number one draft pick David Robinson and big plans: "I'm prepared to rebuild the entire franchise. I think we can fill the

So why is Red McCombs buying more dealerships? The weak Texas car market has forced others to sell out—creating a perfect opportunity for bargain hunters like McCombs. "We still like the dealership business, and I see it as an opportunity to increase holdings in those areas."

arena again." (See story, p. 45.) He's also supporting Mayor Henry Cisneros' efforts to get a 65,000-seat domed stadium built in San Antonio (citizens will vote on a tax hike to raise the necessary funds on Jan. 21).

Then there's a plan being developed with three partners to build a pari-mutuel racetrack along the section of Interstate 35 known as the San Antonio-Austin corridor.

Meanwhile, McCombs' dealerships have been struggling. McCombs won't disclose figures, but he admits sales dropped 15% last year from 1986, and he is expecting another 10% drop in 1988.

So why is he buying more? The weak Texas car market has forced others to sell out—creating a perfect opportunity for bargain hunters like McCombs. "We still like the dealership business, and I see it as an opportunity to increase holdings in those areas," he says of the bust from his main office—in a dealership on Interstate 10 west of San Antonio. Texas won't sink forever, he figures.

As for ever making The Four Hundred, McCombs draws: "I'm trying."—Claire Poole



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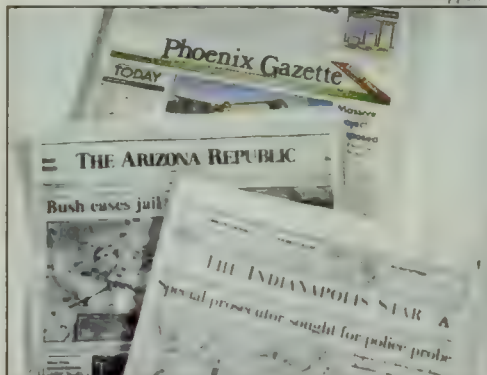
Edited by Gretchen Morgenson

All in the family?

Something's up at Central Newspapers, the family-controlled chain that helped generate Dan Quayle's fortune. As has happened to other media dynasties, pressure seems to be mounting on family leader Eugene S. Pulliam, Dan's uncle, to realize shareholders' values in the properties. Central has very valuable monopoly papers in Indianapolis and Phoenix.

Pulliam—son of the chain's founder and a member of The Forbes Four Hundred—was planning a public offering last spring. But he shelved it one day after getting an unsolicited offer of \$1.5 billion, far above what the stock offering would have raised.

Leslie Kippen



Central Newspapers' big properties
Will Dan Quayle's uncle sell out?

The private bid was said to be from Gannett allied with another newspaper company. Pulliam turned it down.

All was quiet, then, until late September, when management at the Phoenix papers announced the elimination of 100 jobs through early retirements or "involuntary terminations" if necessary. This has led to rumors that the papers' management may be getting them in shape for another IPO try. "Our margins are lower than those of other newspapers our size," says Bill Shover, a spokesman for the Phoenix papers. Once margins are increased, Shover implies, the chain can sell nonvoting stock to the public at a higher price.

One other possibility: Central could sell the Phoenix papers and keep the Indiana properties. That way, Pulliam can buy out disgruntled shareholders and maintain the family's political power base.

Pulliam scoffs at the notion of splitting the holdings, saying he's prevented from doing so by a family trust.

While the trust does prohibit selling off the entire company, it's unclear that it precludes piecemeal asset sales. "In my mind," says Pulliam, it prevents both. A court could decide otherwise. Lawsuits may not have been filed, but there is "movement" in that direction, insiders report. It is said that various charity stockholders are fed up with Central's skimpy dividends.—Eric Schmuckler

Merger of convenience

The joining of publicly held Stifel Financial and private Rowland, Simon, both St. Louis-based brokerages, has all the markings of a shotgun wedding. Stifel wouldn't divulge details of the cash and stock deal when it was announced in mid-September, but a spokesman said it had pursued Rowland for most of the summer in order to give Stifel "an enhanced presence in St. Louis."

Others watching the local brokerage scene say the deal—for \$2.5 million—was struck in a hurry to save a sinking Rowland, Simon.

What's Stifel getting? None of Rowland, Simon's contingent liabilities, which are considerable, and all of its assets—a 200-person sales force as well as cash, securities, margin debits and office furnishings. That's important: Rowland, Simon's link to a 1987 pension fund fraud case keeps it under a threatening legal cloud that Stifel would rather avoid.

Will Rowland, Simon prove to be an astute acquisition? Brokerage analyst

John Segal



Perrin Long says none of Stifel's previous acquisitions—mostly small, obscure firms—has "amounted to a hill of beans."

The firm is paying approximately 1.1 times book value to buy Rowland, Simon, but that book value was dwindling fast. Insiders say Rowland, Simon lost over \$400,000 in the first six months of this year. Stifel lost \$1.6 million in its 1988 fiscal year. There will be economies of scale in the merger, but if the retail brokerage business doesn't improve, Stifel may find itself on the block.

Khashoggi, deadbeat

Sygm



Defendant Adnan Khashoggi
A whole new meaning to "jet set."

What happens when the reputed "richest man in the world" hits the skids? He relies on the kindness of strangers.

That's the story in a civil suit brought by Manhattan travel agent Mill-Run Tours against the formerly eminent Adnan Khashoggi. According to the court papers, Khashoggi, for his family and pals, bought about \$700,000 worth of airline tickets from Mill-Run between 1984 and 1987, and never quite paid for them. Many of these tickets were for Khashoggi's personal friends to use to fly to his swank 50th-birthday bash in Marbella, Spain in 1985. One of those friends, Mary Hart, co-anchor of "Entertainment Tonight," allegedly owes some \$13,000 for airline tickets, landing her as one of the named defendants in the case.

As his cash flow slowed to a trickle, it appears Khashoggi was even having



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you up like new," was her response.
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in store for me.

When the time came to jump on the
plane for her remote tropical island
she grasped my wrist and attempted to
unlatch the smooth stainless steel
clasp on my watch.

"No you don't," I warned.

"You can't possibly relax to a sched-
ule," she responded, "the watch just
has to go."

I explained to her that my Concord
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wristwatch, but a famous piece of
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a talisman to me.

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anybody could become so attached to a
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So we made a deal. But that's an-
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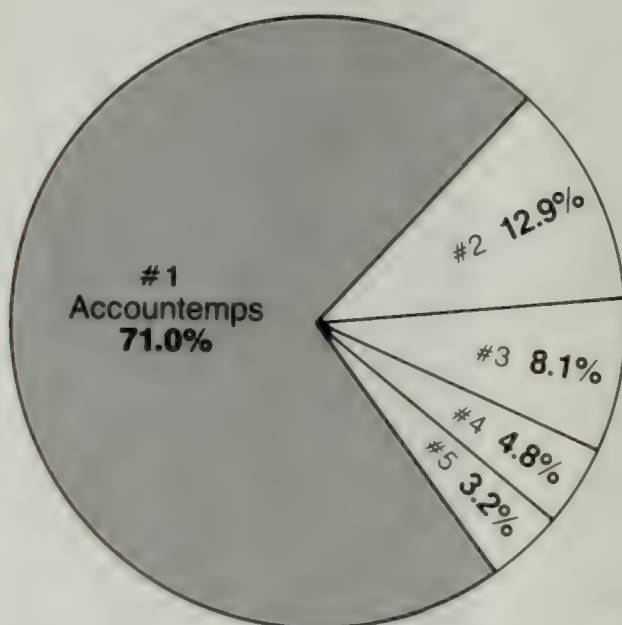


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trouble paying Con Ed and AT&T. So he allegedly charmed Mill-Run into paying the \$72,000 in utility bills he'd racked up at his New York pad in the Olympic Tower. By this time, even Mill-Run knew it was in trouble. A \$276,000 Khashoggi check drawn on a Monte Carlo branch of Société Générale had bounced. Finally, Mill-Run's munificence came to an end. But getting much back from the elusive former arms dealer won't be easy. Serving him with legal papers was, undoubtedly, tough enough.

Citicorp defection?

John Reed's right-hand man, Lawrence Small, may be eyeing the top job at beleaguered Manufacturers Hanover Trust. Small, 47, has made a name for himself at Citi as hatchet man extraordinaire, slicing 5,000 jobs from Citi's commercial banking operations worldwide. Clearly able, Small is Reed's junior by only two years, so it seems unlikely he'll get his shot at the big bank's throne.

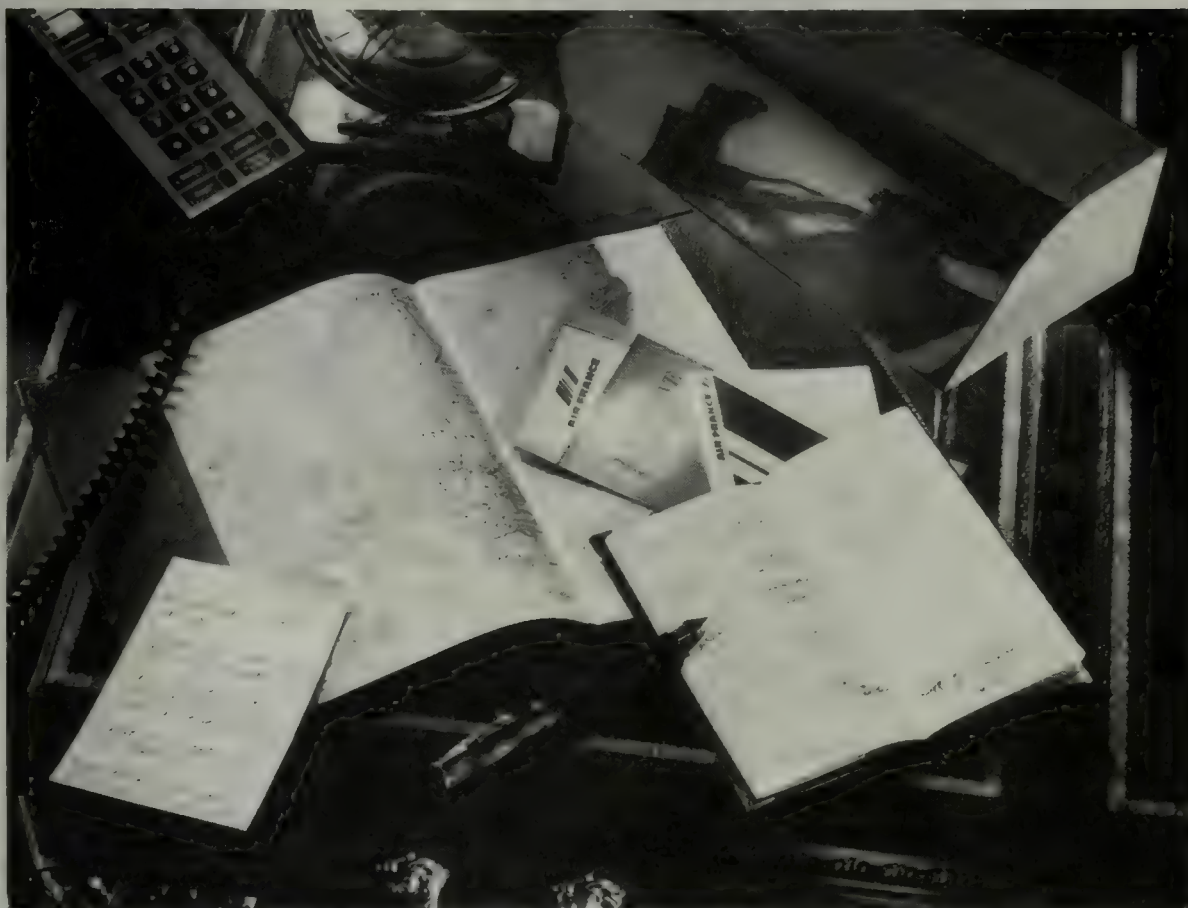
Another reason to defect? Insiders point out that Small's banking empire may be getting smaller. In an August meeting with stock analysts, Reed said that consumer banking could contribute 70% of Citi's profits in coming years, versus less than 50% today. This pretty clearly implies that Small's commercial operations would be contributing less. At Manny Hanny, meanwhile, Chairman John McGillicuddy, 57, could surely use some help topside. Small, Citibank and Manny Hanny all deny that Small is considering a change.

Splitsville, U.S.A.

Raoul Felder is the divorce lawyer of choice for many of the power set. He's represented dozens of the rich and famous during the 30 years he's been practicing; clients have included late real estate billionaire Sol Goldman, two ex-wives of financier Saul Steinberg and a member of the Newhouse publishing dynasty. Felder's divorce practice is now the nation's largest, grossing him some \$15 million per annum.

Business is so brisk, in fact, that Felder is going "tricoastal." He's about to announce affiliations with three firms in cities where he already does a lot of business: Beverly Hills, Palm Beach and West Orange, N.J. Felder figures he will spend three days a month in each office, overseeing case work and holding clients' hands. So for some, breaking up will be easier to do.—E.S.

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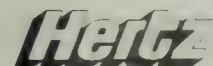
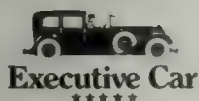
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THE FINE ART OF FLYING

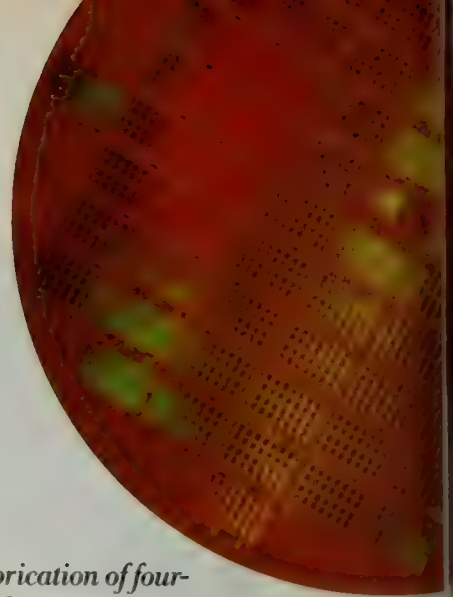
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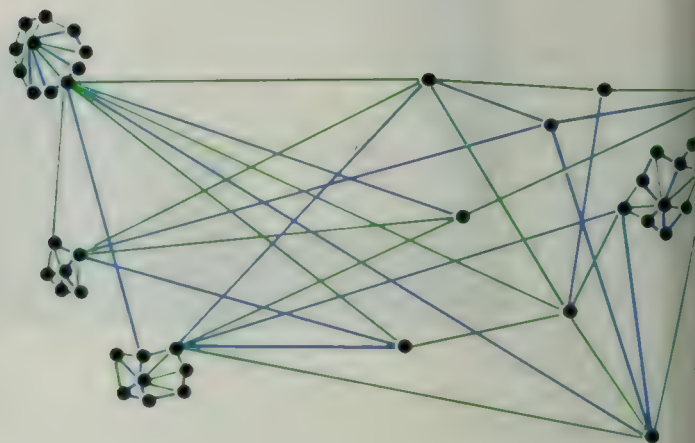
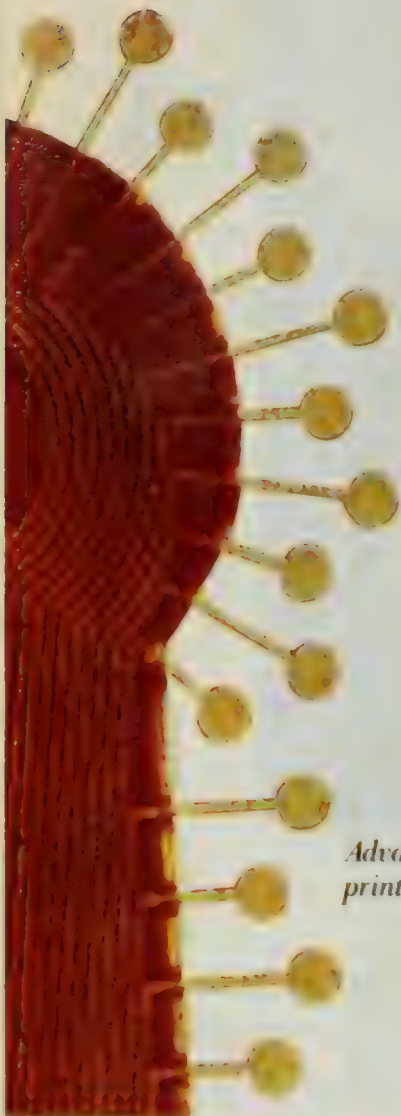
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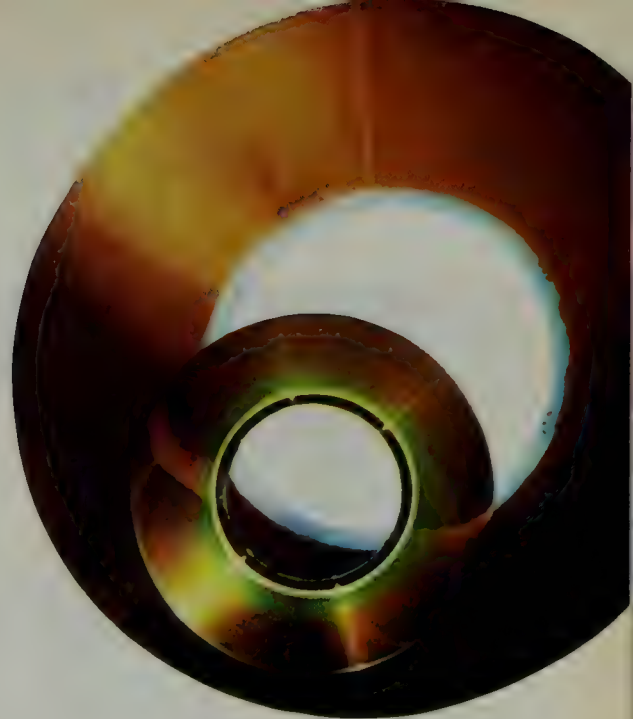
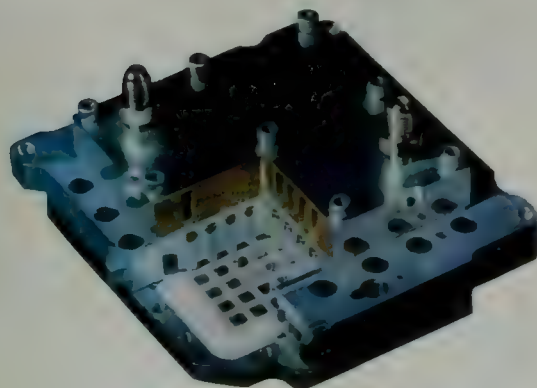
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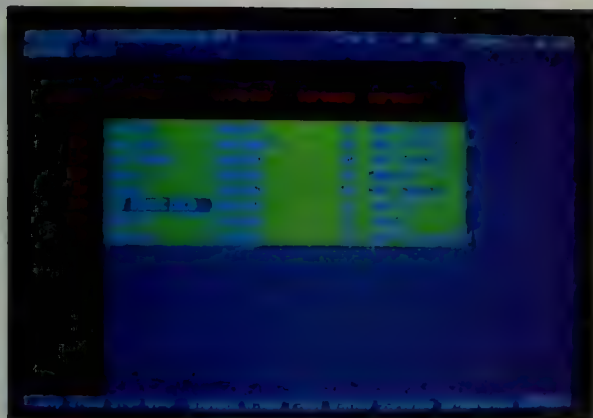
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

THE RACE TO MAKE SUPERCONDUCTIVITY PRACTICAL

is one we just cannot afford to lose or even long to flag in. Ultimately, it could have the biggest impact since the wheel. Let's hear from the presidential candidates that they will

provide whatever leadership is required to be sure the U.S.A. doesn't play second fiddle or fiddle around while others get an armlock on superconductivity breakthroughs.

THE BABY DROUGHT'S OVER

Happy baby days are here again!

The huge number of post-World War II baby-boomer babies largely laid off having huge families. The result has been a real dearth for those dependent on Young numbers—from colleges to clothiers, to housers and feeders, etc. But in

1987 we had more babies than any other year since 1964—3,829,000 wee criers—though after such a lengthy deficiency it will not fill all our needs (*see Fact and Comment II*).

It's still great news, 'cause we're shorthanded in these days of Reagan-Bush growth.

ONE FORM OF SEXUAL DISCRIMINATION THAT WE'D DO AWAY WITH

if we could think of how, would be the lifespan difference.

Women live years longer than men.

Is it just because we males wear out sooner? Or rather that they wear us out quicker providing them with tender loving care?

Anyway, the net result is oft as depicted in this Right-On *New Yorker* cartoon.



DRAWING BY ERIC TEITELBAUM, ©1988
THE NEW YORKER MAGAZINE, INC.

"Someday, son, all this will belong to your wife!"

FORBES FOUR HUNDRED: WHO'S NEW AND WHY THE DROPPED WERE

On this year's FORBES Four Hundred roster of the richest people in America, there are 52 new faces.

Of the down and out, only 4 dropped off because they dropped dead.

Fifteen moved sideways—no longer eligible alone for the Four Hundred but folded into Family fortunes. Eleven were just nosed out. The fortunes of 22 suffered such stock market attrition they weren't even close this year.

Of the 52 new faces in the Four Hundred Class of '88, 14 have actually undergone face-lifts. They'd been in before, fell out and are back looking like new.

First-timers number 38.

It's interesting to note that this year it takes \$225 million to be included—the same as in 1987. This in spite of the fact that last year the lists closed just two weeks before the Dow went over the Oct. 19 precipice—a discom-bobulation reflected, of course, this time around.

As we observed here last October: "It's this very element of volatility that most dramatically demonstrates what's key to America's extraordinary economic strength: Anyone has the opportunity to Make It, and no one who's Got It can be sure or insured he'll keep it."

IT'S HARD NOW TO REALIZE HOW TOTALLY AUTOMOBILES

and the advertisements depicting them have engrossed Americans for nearly a century. Our nation's consuming romance started with the Model T Ford, and only



two world wars and the Depression's devastation gave it pause. And then only for their durations.

The headiness of it all during the first three decades is brought back with a rush in a colorful 120-page book, *The American Automobile*, by Yasutoshi Ikuta (Chronicle Books, \$14.95). The book consists mostly of splendidly reproduced automobile advertisements. These begin with the first auto ad, which appeared in 1902 for the Haynes-Apperson and featured the 12hp, four-passenger Surrey model steered by a rod, for \$1,800.

Over 180 separate U.S. automakers turned out passenger cars during the ensuing 34 years that this book spans.

At the start of this century, of our 8,000 cars, 5,000 were run by steam. Soon the steamers lost favor to newborn electric automobiles—smooth, quiet, crankless, fumeless and able to go 60 miles on an overnight charge. Then the gasoline engine took command. By 1905 at the Madison Square Garden Automobile Show, of 212 cars exhibited, 177 ran on gas, 31 were electric and 4 still steamed.

The two-passenger Oldsmobile Runabout cost \$650. The Peerless sold for \$6,000, and the imported Mercedes \$7,500. Ninety percent of all automobiles were open, and, to deal with the dust, "women drivers and passengers donned linen dusters (overcoats) and wide-brimmed hats tied down with scarves, thereby starting a fashion trend that swept the country. In fact, the

early age of automobiles is often called the 'days of the linen duster.'

"In 1909 a group of four women, led by a Miss Ramsey, drove from New York to San Francisco in the then-unbelievable time of 53 days, an achievement celebrated all across the country."

Up until World War I halted automobile making in 1917, Henry Ford's Model T dominated the country, and Ford's assembly line conception and single-color insistence made them available under \$500.

After the war, Alfred Sloan created the General Motors management concept, and what enabled GM to overtake Ford was not its models as much as it was the introduction of the installment plan. By 1925 two-thirds of GMs'



B.C. Forbes in his Model T

sales were "Drive Now, Pay Later," and the interest on the installment plan greatly swelled company profits.

But Henry was having none of that installment stuff. "To go ahead and enjoy oneself without having finished payment is immoral," he said. Even the reduction of the Model T in price to \$260 could not save it, and by 1927 the last of 15 million T's came off the assembly line.

By 1929 the country was producing 5,360,000 cars, fabulously portrayed through advertisements in romantically beguiling language and settings that really moved the merchandise. Then came the Depression; production dropped 75% and dozens of makers failed—Auburn, Duesenberg, Franklin, Marmon, Pierce-Arrow, Stutz.

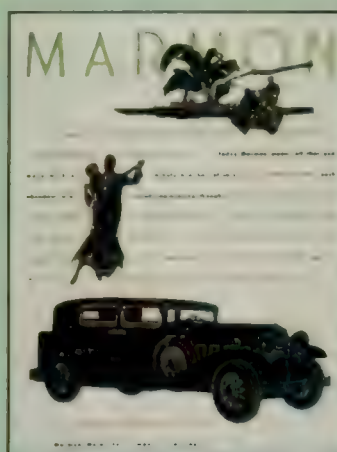
This lovely publication delightfully portrays a part of America's history of unique, dominating significance.



"standards singularly fine"



"as smart as youth itself"



"the fine thing well done"



"high quality with low price"

SHOULD MERV GRIFFIN NOW ANTE UP TO BOB HOPE?

The great Hope is one of our most valuable national treasures—though I doubt if he would like to be kept in port Knox along with all our other bullion. Recently, he was interviewed on *Nightwatch* by Charlie Rose and this was part of the conversation:

Charlie Rose: Mr. Hope, I read this article about how rich you are.

Bob Hope: It's a lie, it's a lie.

Rose: Why do they come up with these wonderful numbers, I mean, because you're almost as rich as Merv.

Hope: I told Malcolm Forbes a few years ago, I said . . .

Rose: He said it was \$500 million.

Hope: No, well, originally he did, but if I was worth that much, I wouldn't have visited Vietnam, I would have sent for it.

He came down to two, and I finally got him to a hundred and eighty.

I sat at the table with him in Palm Springs at the Valter Annenbergs' New Year's party for the Reagans. When I got up to say a few words I said, "I feel kind of funny because I'm sitting across from Malcolm Forbes

and he keeps looking at me saying, 'I know what you're worth.' But I'm not."

Rose: Now, how about Merv Griffin's worth?

Hope: I saw Merv the other night and asked him for a few dollars. I did his show for so many years for nothing.

Rose: Nothing?

Hope: And now Merv is fat.

Rose: He owns everything.

Hope: He's got everything. He just bought . . .

Rose: Resorts International.

Hope: And I told him I was playing Atlantic City. He said, "Don't do it again unless you do it for me." Imagine me going to work for him! I'd like to get paid once by Merv.

* * *

I was flattered to be invited on several occasions to appear as a guest on Merv's delightful TV hour and—for good reason—the thought of being paid never occurred to me. But knowing Bob's great cents of value, I was flabbergasted that *he* had done his Merv stints for free. Don't you think on the replays Merv might ante up some sort of residual to poor Bob?

TRYING

precedes succeeding.

NOTHING EXCEEDS

like \$ucce\$\$.

BOOKS



● **Old Money: The Mythology of America's Upper Class**—by Nelson W. Aldrich Jr. (Alfred A. Knopf, \$19.95). A fascinating contemplation of the Old Money navel by one whose umbilical cord was once firmly attached. A sometimes funny, sometimes scathing, sometimes sympathetically insightful examination of the airs acquired "to legitimize and solidify Old Money's otherwise questionable status," in the words of the book jacket. The riches bequeathed to the American heirs and heiresses for sure don't ensure happiness. Nor will Mr. Aldrich's shrewdly witty social history make them more so.

Excerpts: *For many Old Money beneficiaries, a life spent without having to take the risk of paying the cost of consequences is, quite simply, an inconsequential life. . . . In a boarding school there's no privacy, no money, and no help, except from the larger family of the school itself. There's no dreamy solitude, no slack time, no lazing around. One's entire life is spent in public, performing. . . . The distinctions between native old families and summertime old families produce some of the most delicate and painful dramas in American social life. The summer folk love the natives: love them as they love their nannies, their views, and their Winslow Homers. What the natives feel for the summer people is harder to describe. Whatever it is, it is not acceptance. . . . "I've been a*

Republican all my life," [said my Grandpa. "But] I couldn't vote for Mr. Nixon. Good heavens, how can one vote for a man who has to shave three times a day!"

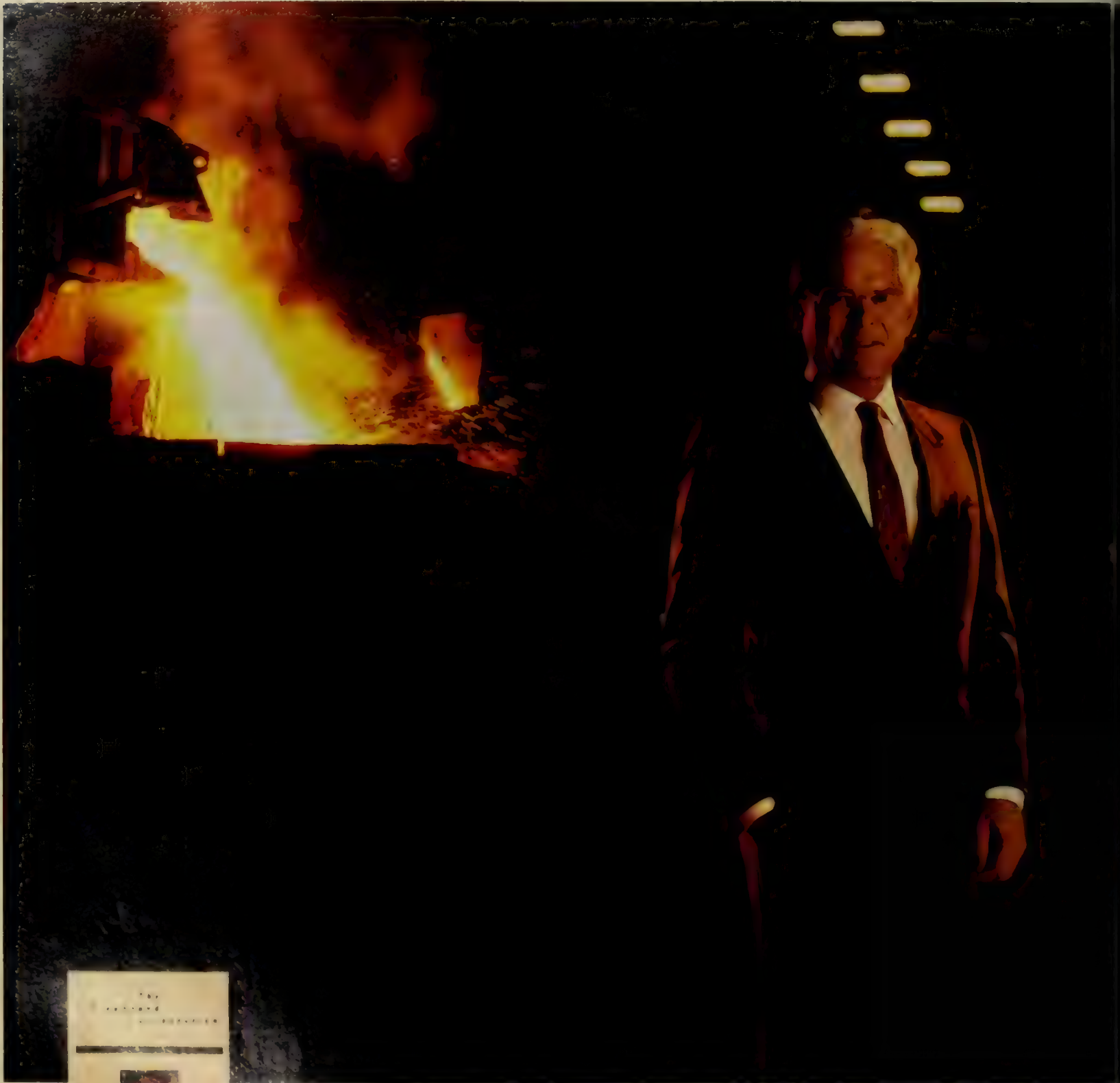
● **Blue Blood**—by Craig Unger (William Morrow & Co., \$19.95). A spectacularly tragic example of how a Four-Hundred-sized fortune, bequeathed to a second wife, magnified, distorted, finally destroyed that life and rerouted multiple others. Not a happy tale.

Excerpts: *"Rebekah [Harkness'] problem," says one of her lovers, "was that she really was the American dream. Rebekah was the pursuit of happiness. But only the pursuit is fun. After the dream comes true, it becomes a nightmare." . . . [Rebekah's daughter] Edith confided that it was because of Rebekah that she had had eighteen years of psychoanalysis. "Eighteen years!" the friend said. "Edith, that's ridiculous. At most you needed two years." "I know," Edith replied. "But which two?" . . . Often when Rebekah was depressed—several times a day—she phoned Frank Andrews, a man in his thirties who reportedly read palms and tarot cards for Yoko Ono, Christina Ford, and Princess Grace. Frequently, she was desolate. "Lie to me," she told him. "Tell me somebody loves me." . . . Martha Graham, like all the other great choreographers who passed through Rebekah's doors, ended up leaving in consternation. "That woman has a lot of money," Graham told a colleague. "But she will never have what she wants. All she wants is to be a swan."*



'Management must guide the forces of change...'

— John W. Teets, Chairman



For a copy of Greyhound's latest annual report, write to Public Relations, 1618 Greyhound Tower, Phoenix, Arizona 85077

The Greyhound Corporation has been recast. From the crucible of change has emerged a new Greyhound, tempered for strength and reshaped for the future.

The job of management always has been to see the company not as it is, but as it can grow to be. The new Greyhound is the result of this vision, built through a five-year restructuring program.

Hard choices were faced; tough decisions were made. Subsidiaries with annual sales of \$3 billion,

including the company's nationwide bus line, were divested. At the same time, new businesses with excellent growth and profit potential were established or acquired.

For example, Purex household and laundry products were added to the personal care and packaged foods brands of Greyhound's Dial Corporation. Prerr Cruise Lines, the official cruise line of Walt Disney World, was launched. Dobbs food service for air



Travelers was acquired, complementing Greyhound's existing airport and food service businesses. General Motors' RTS transit bus manufacturing and parts operation was purchased to expand Greyhound's top-ranked intercity coach-building business.

Today, Greyhound's four business segments — consumer products, services, transportation manufacturing and financial — produce revenues at a \$3 billion annual rate.

With the restructuring of Greyhound's core businesses completed, management is concentrating on further improvement of operating returns. Change is inevitable, and management must guide the forces of change to create value for shareholders.

At Greyhound, we believe in renewing the company day by day.

The Greyhound Corporation



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Top Dog

A currently popular T-shirt has it: WHOEVER HAS THE MOST THINGS WHEN HE DIES, WINS.

—*Money Angles*, by Andrew Tobias

Stallone on \$

Money does not bring peace of mind. Actually, money brings about more problems. Everything is magnified a hundred thousand times. That's not to complain, but once you make a fortune, you think that it becomes all green lights and blue skies. That's not true. As a matter of fact, it brings out some of the most vile characteristics of other people's personalities that you can imagine.

—Sylvester Stallone, *US* magazine

Early Men's Lib (c.1905)

Men of no social distinction have frequently become prominent in Society by marrying women of breeding. The Vanderbilts, the Astors, the Belmonts and other present leaders have attained their station through the infusion of aristocratic blood into their lines through marriages with the old families. Their wives made them.

—*Top Drawer*, by Mary Cable

That Old Ennui

One factor, above all, helped to stave off boredom: the never-ending pursuit of novelty. "What do you have that's new and beautiful today?" Grace Wilson Vanderbilt would enquire of the clerks at Tiffany's, on Fifth Avenue. Some took advance pre-

cautions against the malaise: At his villa at Californie, on the heights above Cannes, the Russian Prince Cherkassy employed 48 gardeners to change the flower beds overnight and thus surprise him each dawn.

—*The Rainbow People*, by Richard Collier

Stamina

American billionaires are a notoriously long-lived bunch. Knowing they can't take it with them, they seem collectively determined to hang on to it as long as possible, and most have taken steps to ensure their own longevity. John D. Rockefeller's answer was mother's milk. Daniel Ludwig's seems to be buttermilk and bananas. Only Howard Hughes, his body wasted by drugs and neglect, did not make it into advanced age, but even he reached his allotted threescore and ten.

—*The Invisible Billionaire*
Daniel Ludwig, by Jerry Shields

Rich Hardships

For some of the tenants at 100 Central Park South, hardship is not being able to get a table at Le Cirque on thirty minutes' notice. If I've learned one thing about the rich, it's that they have a very low threshold for even the mildest discomfort.

—Donald Trump, *Vanity Fair*

Polished Taste

The answer to the question "Are the rich different?" is "Yes, they have more money."



*That's Elbert G. Chesterton
It would take six hundred
million to swallow him up."*

No, no. The real difference between rich people and regular people is that the rich people serve such marvelous vegetables. Delicious little tiny vegetables. Little fresh-born things, scarcely out of the earth. Little baby corn, little baby peas, little lambs that have been *ripped* out of their mothers' wombs. That's the real difference. All of their vegetables and their meats are so incredibly fresh and unborn.

—*Conversations with Capote*, by Lawrence Grobel

Hit Up at the 9th Hole

Who, outside the family, wanted nothing from him but friendship? Who admired and liked him for himself alone? Nelson's grandfather had once explained his few golfing partners: "I have made experiments, and nearly always the result is the same. Along about the ninth hole comes some proposition charitable or financial."

—*The Imperial Rockefeller*, by Joseph Persico

The difference between old veau and nouveau is that one dies, and the other buys.

—Beauregard Houston-Montgomery,
Details magazine

Fears and Anxieties

One cannot exaggerate Old Money's fear of loss. It poisons their most salient virtues, and it poisons the whole aim of their schools' Periclean ordeal, which is to induce in their children a gift of the self to the public world. The anxiety of the trust-fund rich over the market, the fear of the clubman for his privacy, the dread of poor little rich girls for bounders and cads, the uneasiness of the contented in the face of the hungry—all these apprehensions settle easily into one of the most persuasive convictions of the Old Rich: that the world is out to take advantage of them.

—*Old Money*, by Nelson W. Aldrich Jr.

Real Class

Sandra Harris, *Today* interviewer: "Tell me, Miss Cartland, have class barriers broken down?"

Miss Barbara Cartland, author, British aristocrat: "Of course they have, or I wouldn't be sitting here talking to someone like you."

—*Class*, by Jilly Cooper, quoted in *Aristocrats*, by Robert Lacey



One gift, more than any other, is perfect when things don't work out like you've planned...a gift of flowers. Flowers have a way of saying you understand and you care, and flowers help people feel better instantly. This special gift can be sent to anyone, almost anywhere, just by asking your florist to send it through FTD.[®] So even when your weekend plans don't have a chance to begin, you can send a feeling that will never end.



Flowers...
The feeling never ends.



Now that's good fortune.

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



THE MAJOR OBSTACLE TO THE FUTURE OF THE U.S. ECONOMY

is not the trade or budget deficit but, rather, the ultimate source of a nation's wealth—its people. We don't have enough of 'em, at least young adults. Since the late 1950s birthrates have plummeted in this country to the point where we are below what demographers call the natural replacement rate. To keep a population stable, population experts say that women should have an average of 2.1 children during their child-bearing years. The "fertility rate" since the early 1970s has been around 1.8. In many West European countries, especially Germany, the rate is even lower. Unless the trend is reversed, the U.S.' population will eventually decline. Meanwhile, the median age will become older and older.

Today U.S. businesses are having a more difficult time finding people for entry-level jobs. In a decade the housing industry and all of its derivatives (now 10% of GNP) will be badly hurt because there will be fewer young adults to buy houses. Ditto for the auto industry.

One sensible response is increasing legal immigration. America now receives about 500,000 foreigners a year as permanent residents, a small number for a nation our size.

Representatives Peter Rodino (D-N.J.) and Romano Mazzoli (D-Ky.) have introduced legislation that could increase that number by about 50% a year, not enough (it should be boosted 150%) in the wake of the 1986 act reducing illegal immigration, but far better than the status quo.

Immigrants have shown time and time again that they contribute enormously to the wealth of the nation. In Silicon Valley and elsewhere our cutting-edge technologies have a disproportionate number of foreign-born and first-generation Americans.

Ben Wattenberg, demographic expert and author of *The Birth Dearth* (see *FORBES*, July 13, 1987), rightly warns, "A nation shrinking in numbers is not likely to be in global ascendancy. The quickest way to reverse that trend [of fewer young people] is to bring in more immigrants. Our economic competitors cannot do that. The xenophobic Japanese don't want and can't take in immigrants. The Europeans take in some, then try to deport them."

Compared with the rest of the world, we are indeed a melting pot. We should take more advantage of this extraordinary trait. We'll be the richer for it.



New citizens: expanding nation's wealth

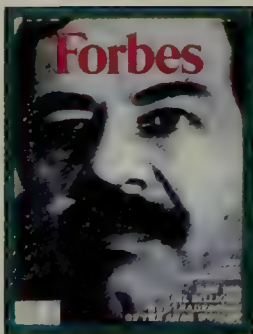
STILL A GANGSTER

Eight years ago, Iraqi dictator Saddam Hussein was being trumpeted in the Western press as an Arab moderate with whom we could and should do business. *FORBES* disagreed. In a cover story written by Lawrence Minard, now Deputy Managing Editor, we warned that Hussein was little more than a murderous thug.

A few weeks later he lived up to our billing by invading Iran and triggering a war that is just now winding down after costing probably more than a million lives.

But the thirst of Iraq's boss for blood and violence remains unsated. A few weeks ago he launched a savage attack on Iraq's always-restive Kurdish minority, making copious use of poison gas. The genocidal assault was entirely unneces-

sary to maintain political control of these people. It was Hussein's revenge for their pro-Iranian sentiments.



His attacks have sent tens of thousands of refugees pouring into Turkey, a country with a sizable Kurdish minority of its own. That can only cause trouble for our critical ally, which is already grappling with rising inflation and slower economic growth.

The U.S. Senate has passed a resolution condemning Iraqi atrocities and calling for a significant reduction in trade between our two countries. Those sentiments should become U.S. policy. We don't have the means to rid the world of this pernicious despot. But there is no need for us to sully our hands by doing business with him.



Insuring atypical things a typical insurance

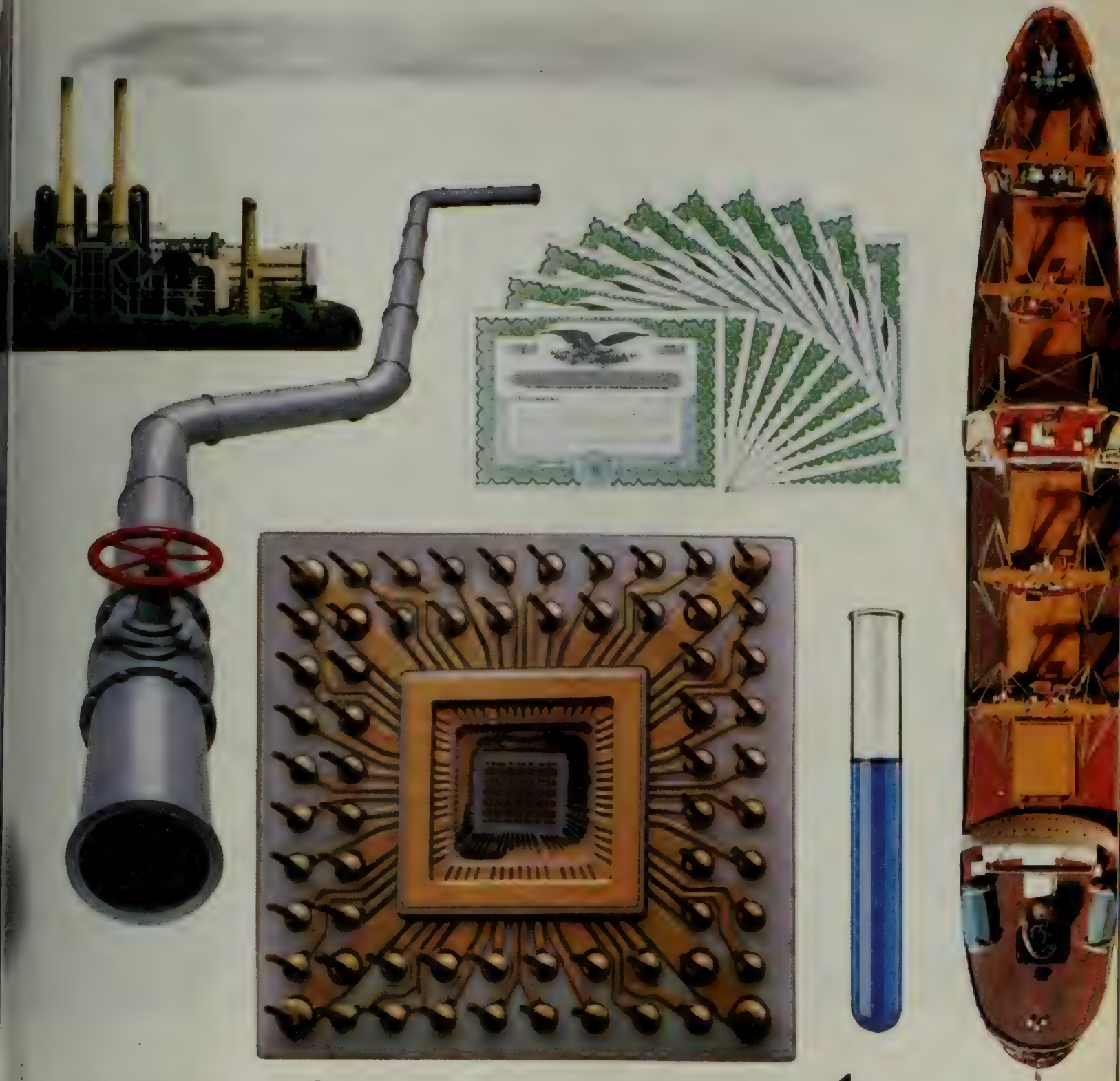
The typical insurance company insures rather typical things.

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The kind of thinking that allows us to develop coverages for just about every kind of

enterprise imaginable.

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American businessmen can't sell to the Japanese? Meet Chuck Feeney and Bob Miller, a couple of energetic entrepreneurs who've become billionaires selling duty-free cigarettes and liquor, and designer goods to Japan's free-spending tourists.

Rich, ruthless and determined

By Andrew Tanzer
and Marc Beauchamp

THE PARTNERS' former employees describe them as a study in contrasts. Robert W. Miller, 55, raised in working-class Quincy, Mass., wears his silver hair modishly long and favors bespoke suits. Extroverted and extravagant, Miller and his glamorous Ecuadorian wife, Chantal, threw a three-day, million-dollar party in Hong Kong in the late 1970s, complete with yachts, hot air balloons, a castle overlooking Repulse Bay, and a South American rock group and a Paris disk jockey flown in for the event. "There's never been anything like it since," says John Dameron, a former employee.

Miller's partner and reverse image is Charles E. Feeney, 57. A native of Elizabeth, N.J., Feeney (which see) is introverted and, despite his enormous wealth, still is said to fly economy class. He is a hyperactive man who values his family and their privacy and does not dress to impress. "The first time I met Feeney," says a man who worked for him, "I recall he had a safety pin holding up his pants."

But despite their differences, or perhaps because of them, the Feeney-Miller partnership has created an international retailing colossus that does what many Americans think is impossible: sells things to the Japa-



DFS founders Miller, Feeney

"They had the offshore mentality."

nese. The partners are a major reason why Japan will run a \$10 billion deficit on tourism this year.

In 1960, in Hong Kong, Miller and Feeney started Duty Free Shoppers Group Ltd. Today DFS is the world's largest operator of airport and downtown duty-free stores. The company has 160 stores, spread mainly around the Asia-Pacific region. Most of its airport concessions are monopolies, granted by local airport authorities.

Headquartered in San Francisco and incorporated in Bermuda, Duty Free Shoppers has a corporate structure that is a labyrinthine web of offshore registrations. Feeney and Miller, as well as the company, refused repeated requests for interviews. But some estimates are possible: According to former employees and competitors, DFS' 1988 sales will probably top \$2 billion, up from \$1.6 billion last year and \$1.2 billion in 1986. DFS is four times



larger than its nearest competitor Hanson Plc.'s Allders International in the estimated \$10 billion duty-free retailing industry.

Profits? Duty Free's pretax margin were probably around 20% in 1986 and 1987. That suggests pretax earnings of more than \$300 million last year, and easily qualifies Feeney and Miller—who are believed to share an 80% interest in the company, as billionaires. (Miller has given up his U.S. citizenship and reportedly taken a Hong Kong passport for tax reasons; unlike Feeney, he is not included among our American billionaires.)



Japanese tourists outside Duty Free Shoppers' flagship store in downtown Waikiki
To gross \$400 million this year, an astounding \$20,000 per square foot.

Bruce Asato

There is no family money behind these entrepreneurs, just hard work, opportunities created by government tax codes and a deft understanding of Japanese tastes and shopping habits. Says Peter Sosnkowski, the Hong Kong-based executive vice president of Remy Martin (Worldwide), a big supplier to Duty Free Shoppers: "They understand Japanese travelers and buying psychology better than anybody."

Undergraduate classmates at Cornell University's School of Hotel Administration (classes of '55 and '56), Miller and Feeney started a business

in Europe in the late 1950s selling duty-free liquor and foreign-made cars to homebound U.S. servicemen and tourists.

In 1960 they shifted the focus of their two early companies, Tourist Internationale Ltd. and Cars Internationale Ltd., to Asia. The two young men would board U.S. naval vessels in Long Beach and San Diego and pass out literature on the car and liquor-purchase programs before the ships left for Asia. They later opened offices at U.S. Air Force and Navy bases in Asia, often staffing them with retired military men.

In 1961 and 1962 they expanded their business by opening two duty-free stores at the Hong Kong and Honolulu international airports.

"Miller was an excellent promoter," recalls a former Duty Free Shoppers employee. "He had no fears." Recalls Desmond Byrne, a former employee who is now a Honolulu-based analyst of the duty-free industry: "Bernie Cornfeld was their hero. They had the offshore mentality."

But like many young businessmen, Miller and Feeney paid scant attention to financial controls and soon overexpanded. The U.S. government

changed the regulations on duty-free liquor, cutting out a major part of the duo's business, and permitted U.S. car manufacturers to sell on military bases, pulling the rug out from under Miller and Feeney. Sometime in 1964 or 1965, Duty Free Shoppers' offices were quickly closed. According to Desmond Byrne, "DFS was technically bankrupt in 1965."

To help salvage something from the mess, the founders brought in Anthony M. Pilaro, an American lawyer, and Alan M. Parker, a British accountant. In 1966 Pilaro and Parker were each given a 10% stake in Duty Free Shoppers. Pilaro, a University of Virginia Law School graduate, introduced DFS to Butlers Bank of Nassau, which provided the financing to extricate DFS from the car import business. Pilaro later became a consultant to fugitive financier Robert Vesco, who relied on the now-defunct Butlers Bank to finance his takeover of Bernie Cornfeld's Investors Overseas Services. Pilaro, who today lives in Southampton on New York's Long Island, declines comment.

Cash flow from the Hong Kong and Honolulu duty-free stores pulled DFS through. The volume at these airport duty-free concessions picked up sharply after travel restrictions were eased on the Japanese following the 1964 Tokyo Olympics. Over the next 18 years, Miller and Feeney opened airport shops in Guam, Saipan, Singapore, Anchorage, San Francisco and Los Angeles.

In targeting Japanese tourists for his DFS stores, Feeney (who learned to speak Japanese) hit a bull's-eye. Japanese tourists spend lavishly when they travel, typically \$1,200 to \$1,500 per person on shopping, with half of that spent at duty-free shops. Japanese are obligated to buy gifts for friends, relatives and colleagues when they travel. *Senbetsu*, a gift of money to departing travelers, is reciprocated with *omiyage*, souvenirs of the trip. Honeymooners reciprocate wedding gifts with presents. Surveys by Japanese travel agents show 70% of tourists buy whiskey and chocolate when they travel, 60% tobacco, 50% cosmetics and cognac, and 40% leather bags. All the things, in short, that Miller and Feeney have stocked over the years in Duty Free Shoppers.

It is the result of shrewd and some-

times obsessive marketing—not accident—that more than half of the 8 million Japanese (the figure is up 60% in three years) who will travel overseas this year will shop at one of Miller and Feeney's outlets. DFS advertises heavily in Japanese travel magazines and tourist guidebooks; Japanese travel agencies handle applications for DFS' installment credit card, which is available only to residents of Japan. DFS' large Tokyo office is situated in a building where many passports are issued and many tour operators have offices.

The partners' tactics go deeper. Early on, DFS took advantage of the fact that 80% of Japanese tourists travel in package or group tours by forging close links with Japanese travel agen-

le's revenues of about \$800 per square foot. Almost all of the 1.3 million Japanese who visit Hawaii this year will shop at a DFS outlet, spending about \$600 million and making the company the state's largest retailer.

But doing business in Honolulu costs money, too. The company bid a record-breaking \$1.15 billion for the five-year Honolulu airport concession earlier this year. The bid was triple that of Korea's Lotte Group, the only other bidder, and will mean an average annual concession fee of \$230 million, compared with average annual payments of \$40 million during the last concession period. Says a former employee of the partners' bid: "They were terrified of losing Honolulu."

Duty Free Shoppers is also the larg-

est retailer in Alaska. At its Anchorage airport store, Japanese transit passengers snap up steak and salmon along with Rolex watches and Hermès scarves. Last year, according to Generation Publications, a Sweden-based duty-free industry research firm, the store rang up \$101 million in sales, an amazing \$112 per international passenger, compared with a global international airport average of \$9.50. And Anchorage was not even Duty Free's best store. The Honolulu store did an average \$170 per passenger. The Guam concession av-



DFS store at San Francisco International Airport
"You follow the flag and buy where we say."

cies. DFS has contracts with all the large Japanese travel agencies, whereby DFS pays the tour operators a flat fee for every Japanese tourist they deliver to a DFS store, plus commissions ranging from 5% to 15% of sales.

Even tour guides and bus drivers—the people actually responsible for getting the customers to the stores—are remunerated. It is not uncommon for group guides to shepherd the travelers by bus from Honolulu International Airport to the downtown Waikiki DFS shop even before the tourists check into the hotel, and before they have a chance to spend their money elsewhere. Says Jean-Pierre Miquel, president of Miami-based Greyhound Leisure Services, which has several duty-free concessions on the East Coast: "[Japanese] travel agents say to the tourists: 'You follow the flag and buy where we say.'"

Sales at Duty Free's Waikiki shop should approach \$400 million, or \$20,000 per square foot, this year. Compare that with, say, Bloomingda-

eraged \$180. (In Guam, DFS' \$140 million concession bid in 1978 was used to finance construction of the airport.)

Competitors? They have come, and mostly gone. In 1981 Host International opened airport and downtown duty-free shops in Honolulu. But Duty Free's franchise was impenetrable, and the Host stores were closed in nine months. "[DFS'] strong ties to Japanese tour operators make it extremely difficult for competitors to enter the field," explains Generation Publications' owner, Yngve Bia. The following year Host (which defaulted on its Honolulu concession) was carved up by Marriott Corp. and DFS.

Another competitor arose last year, when Kiu Fat Investments Corp., backed by the People's Republic of China, outbid Duty Free Shoppers for the airport liquor and tobacco concession in Hong Kong. But DFS promptly undermined the new concessionaire by pricing its duty-paid liquor sold at its downtown stores at or below Kiu



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Fat's prices. Duty Free also started a service for Japanese shoppers delivering liquor to the airport and checking it through to Tokyo or Osaka. And it discouraged European designer houses from supplying Kiu Fat's downtown store with merchandise.

In July Kiu Fat capitulated. DFS now manages the airport concession.

By forging close links to Japanese travel agencies, Miller and Feeney also get invaluable inside information on where Japanese tourists are next likely to go. This is because package tours are arranged by travel agencies up to a year in advance. Thus DFS quickly opened several stores in Australia and New Zealand in 1987-88 when it learned the travel agencies were going to move the lucrative honeymooners' market there from Hawaii. Japanese tourist arrivals in Australia are up 70% this year.

Once Duty Free has the Japanese tourists in its stores, the company does everything possible to make them buy. Most sales clerks speak Japanese, all merchandise is guaranteed to be genuine, defective merchandise is replaced or repaired in Japan. But most important, DFS sells the designer brands the status-conscious Japanese tourists lust after.

Take DFS' fancy new store in Kowloon, Hong Kong. Situated across the street from Japan Air Lines Nikko Hotel, the shop is heaven for designer-crazed Japanese: Hermès ties, Gucci shoes, Fendi bags, Piaget watches, Dunhill lighters, Montblanc pens, Swarovski crystal, Wedgwood china and Godiva chocolates. As in many DFS stores, signs compare prices with Tokyo's. For example, a set of three bottles of special vintage Chivas Regal is 48,400 yen (\$364), versus 253,500 yen (\$1,900) in Tokyo. With three large and several smaller Hong Kong stores grossing between them about \$400 million, DFS is the biggest retailer in the British colony. And because it buys in large volumes directly from suppliers, DFS can buy and price aggressively.

"They have more power to squeeze suppliers than any [other duty-free operator] in the world," says one industry expert. In many cases DFS marks up its goods 200%. According to one ex-DFS operations employee, Duty Free Shoppers typically receives 60 days or longer credit, twice the norm.

Merchandise is often sold before payment is due. "If it's not high value, high profit and high turnover, they won't sell it," says John Damron, a former DFS buyer. "They've got it down to a science."

A particularly fruitful relationship with a supplier began in the 1960s and involved Camus cognac. Japan levies a 220% tax on premium cognac and whiskey, and the late Michel Camus figured there was a good opportunity for his cognac to do well in duty-free stores. He worked with Feeney to tailor packaging and product to Japanese consumers. They emphasized ornate bottles, such as Baccarat crystal decanters and Limoges porcelain, with 22-karat gold paint, in the shapes of books, busts of Napoleon and even

concessions at international airports in New York, Boston, Atlanta, Dallas and Portland, Ore. Last spring opened a shop at Gatwick's North Terminal, its first beachhead in Europe. But the partners are hoping to open more downtown stores, too, reportedly in London, Paris, Barcelona, New York, Washington and Chicago. Downtown stores provide much more space and time for international travelers to contemplate buying \$1,000 watches and \$500 pieces of luggage.

Since the early 1970s Miller and Feeney have been turning day-to-day management of DFS over to professional managers. The current chairman, Briton Adrian Bellamy, formerly ran Edgar's Stores, one of South Africa's largest retail chains; former

Bloomington's Chairman Lawrence Lachman is on the board.

The partners have been diversifying their holdings. Operating through his Search group of companies, Miller is said to have invested tens of millions of dollars in a Hong Kong bank and real estate, a steel mill in China and a casino in Greece. Miller's principal residence is in Hong Kong, but he has a chalet in Gstaad, Switzerland.

Feeney, who supplemented his GI Bill income at Cornell by selling sandwiches to students studying at fraternities at night



In Hong Kong's Chinachem Golden Plaza
Profiting on "senbetsu" and "omiyage."

golf balls. The decanters often cost more than the cognac: A standard bottle of Napoleon goes for \$43, while in a porcelain book a slightly pricier cognac fetches \$130. But in Japan the decanters are considered excellent gifts for bosses and clients. As Harry Lynch, vice president of Camus International (Far East) Ltd., quips: "You get 50,000 yen of face for 9,000 yen." Because Japanese often present gifts to the same people during the obligatory *ochugen* and *oseibo* gift-giving seasons, Camus sells porcelain books in nine colors and has introduced 34 new cognac products in just the past two years.

Today Camus is the fifth-largest cognac producer in the world, but number one in premium-grade cognac—and number one (by value) in duty-free store sales. Liquor industry officials call Camus DFS' "house brand" of cognac, but both Camus and DFS deny rumors that DFS or its shareholders are partial owners of Camus.

In the past few years, DFS has won

outgrew Hong Kong in the early 1970s and currently resides in London with his French wife. He is believed to have five children. Through a Bermuda-based holding company, General Atlantic Corp., Feeney has invested in or established dozens of enterprises in Asia, the U.S. and Europe. These include Redwood Publishing in London and InterPacific Group, which owns and operates the enormously successful, and expanding, Pacific Islands Club (in Guam and Saipan), a Club Med-style programmed recreation resort targeted at young Japanese travelers.

But don't let the diversification fool you. There is no sign that Feeney and Miller are taking anything for granted in the duty-free business, or in their ability to please Japanese shoppers. The stakes are too high. "They are totally ruthless and determined," says one of their former employees who joined a competitor. "Monopolies are worth paying for. They pursue them aggressively." ■



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*Leather interior not available on model shown in Pewter Pearl.

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Professional sports teams, many owned by members of The Forbes Four Hundred, don't always make money, yet the franchises appreciate. A background in television or tax shelters will help you see why.

Dumb like foxes

By John Merwin

IN HIS LUXURY BOX perched high above the Giants' Stadium playing field, media and real estate near-billionaire Jack Kent Cooke sips white wine and cheers on the team he owns, the Washington Redskins. His visiting Redskins—reigning National Football League champions—are shutting out the hometown New York Giants before a Labor Day national television audience.

Cooke, 75 (see listing), is in his element. His guests are attentive as the Redskins roll up a 13-0 lead. But then the Giants storm back and score 27 straight points. Now Cooke sits silently, chin stoically in hand. The Giants win, 27-20. On the way out of the stadium, Cooke growls, "We'll beat the hell out of them down in Washington."

We chose this moment to ask Cooke: If you could keep only one of your businesses, which would it be? Cable TV, worth at least \$1 billion (including debt)? The \$500 million in real estate holdings? Or the Washington Redskins, a moneylosing team worth maybe \$90 million that just got whipped?

"The Redskins," Cooke snapped. "Sports introduced me to a world that was 100% fun."

If "fun" is the only incentive to owning a sports franchise, it must be a powerfully concentrated form of fun. In this age of million-dollar-a-year ballplayers and rocketing franchise prices, even the top-ranked teams can lose money. Yet when one comes up for sale, the bidding resembles a feeding frenzy in the shark tank. Much of the bidding is accounted for by members of The Forbes Four Hundred, 24 of whom own a team, or a significant

hunk of one or more teams (see table, on following page).

In 37 years Jack Cooke has invested in pro baseball, basketball, football, hockey and soccer franchises. But like many owners, Cooke feels the less said about the monetary aspects of team ownership, the better. About the only thing he will say about sports



Redskins coach Joe Gibbs (left) with owner Cooke
Super Bowl or cellar, they're worth money.

economics is this: "If you're interested in making big operating profits in professional sports, you've got to be in New York, Los Angeles or Chicago. In that kind of market, you'd have to be a cipher not to make money."

Do rational businessmen really risk \$50 million to \$80 million and more just to have fun? Or is there something more to it?

For some answers, FORBES did a little analysis of its own, and came up with this picture of the Redskins' fi-

nancial performance. This year, the Redskins' operating revenues, flowing mainly from an estimated \$11 million of net ticket income and \$17 million of network television payments, will run about \$30 million. The team's estimated operating expenses, led by \$20 million in player costs, should total roughly \$32 million.

How can a team losing some \$2 million in a good year be worth \$90 million? Here's how:

At the moment, the Redskins are playing in a small, 55,750-seat stadium in Washington, D.C. owned by the federal government. The team gets no cut of concessions and has no luxury boxes. This is the result of an archaic contract signed 28 years ago, before pro sports was big business and before owners discovered they could get nearly anything by threatening to move their teams elsewhere.

In two years, however, the Redskins' contract will be up, and the team will move into a new Washington-area stadium, which Cooke may build himself. The new stadium will probably have at least 200 luxury boxes,

conservatively worth an additional \$8 million per year in revenue. It will also have maybe 20,000 additional stadium seats, worth \$2 million, and a concessions contract worth about \$1 million. Using these conservative estimates, that's \$11 million in new revenues. So if expenses are held in line (with any increased stadium expenses offset by ticket price increases), the Redskins should swing overnight from a \$2 million operating loss to a \$9 million operating profit. Now let's imagine Cooke puts the Redskins on the market for \$90 million. Can a deal like this carry itself? It can, but it helps to have a cable or real estate background (like Cooke's) to see how.

The key is depreciation. Let's assume Cooke sells the Redskins for \$90 million. About two-thirds of a franchise purchase price—mainly player contracts—can be written off, generally over five years. For the Redskins at \$90 million, that's \$12 million a year in depreciation. At a 34% corporate tax rate, the new owner can save more than \$20 million in taxes over the five years, cutting the aftertax purchase price to around \$70 million. That amount could be financed by the projected \$9 million operating profit, as long as the interest rate is below 12.8%. The deal could be sweeter for the buyer if broadcast revenues spiked up again. The rich man's toy turns out

to be a viable business after all.

If, as Cooke says, big market teams are gold mines, which sport mines the most gold? We put the question to Steven Matt, an Arthur Andersen & Co. manager who appraises sports franchises. Matt replied:

"In terms of taking advantage of a major market, baseball is the best, though riskiest, bet. The home team keeps the vast majority of ticket income. Plus all local broadcast dollars. In major TV markets, that can mean upwards of \$5 million per year, and in a place like New York, much more. Couple those broadcast dollars with 78 or 79 home games a year, and a team can generate excellent cash flow."

What about football and basketball? "Football is the safest bet because the NFL relies heavily on revenue sharing," says Matt. "Nearly all of the league's broadcast dollars—its largest revenue source—are shared, plus 40% of ticket income goes to the visiting team. Thus, a team like Green Bay,

with a small stadium and little local broadcast potential, can make money. But it does so at the expense of big market franchises.

"The risk of basketball," Matt continues, "falls between baseball and football. Team expenses are kept fairly uniform by a league cap on player payrolls. But on the revenue side, home ticket and local broadcast revenues aren't shared."

For a real winner, consider the New York Mets. In 1980 snickers were heard across the country when Doubleday Broadcasting paid just over \$21 million for the Mets. In 1982, Doubleday's first full season after the 1981 player strike, the mediocre Mets took in an estimated \$5 million broadcast and \$7 million live gate income.

But this year the team should take in about \$22 million from broadcasts and \$28 million at the gate. Throw in roughly \$8 million from concessions, plus a few miscellaneous items, and the Mets ought to take in about \$60

million this year.

Expenses? An estimated \$22 million for the Mets' major league operations, \$5 million for minor league operations, and \$15 million for general and administrative, stadium upkeep and other expenses. That leaves operating income of \$18 million. Numbers like these make the Mets franchise worth at least \$100 million. That's a 376% capital gain in eight years, more than twice what Nelson Doubleday would have made by investing in the Dow Jones industrials. And no owner's box or white wine comes with the Dow industrials.

What about poorly performing teams in smaller media markets? Wealthy San Antonio car dealer Red McCombs just paid \$47 million for the National Basketball Association's Spurs—a franchise that McCombs figures was worth \$15 million five years ago. McCombs bought a team that has no immediate prospect of big dollars from luxury boxes or local media contracts. What's more, the Spurs' gate receipts, averaging \$78,000 a night last season, trailed well below the league average of \$170,000. "We need \$150,000 a night to make the deal work," says McCombs.

The minute he bought the team, McCombs was able to use the Spurs' operating losses to offset other income. But longer term, he is betting on the NBA's recently imposed cap on team payrolls. It drove franchise prices up sharply, because players' salaries represent about half of an NBA team's expenses. And Red McCombs figures the cap is already starting to even out the league's talent. Winning the league title might be worth \$2 million of operating profits. But McCombs also figures the Greater Fool Theory may bail him out. "The big play in this business," says he, "remains franchise appreciation."

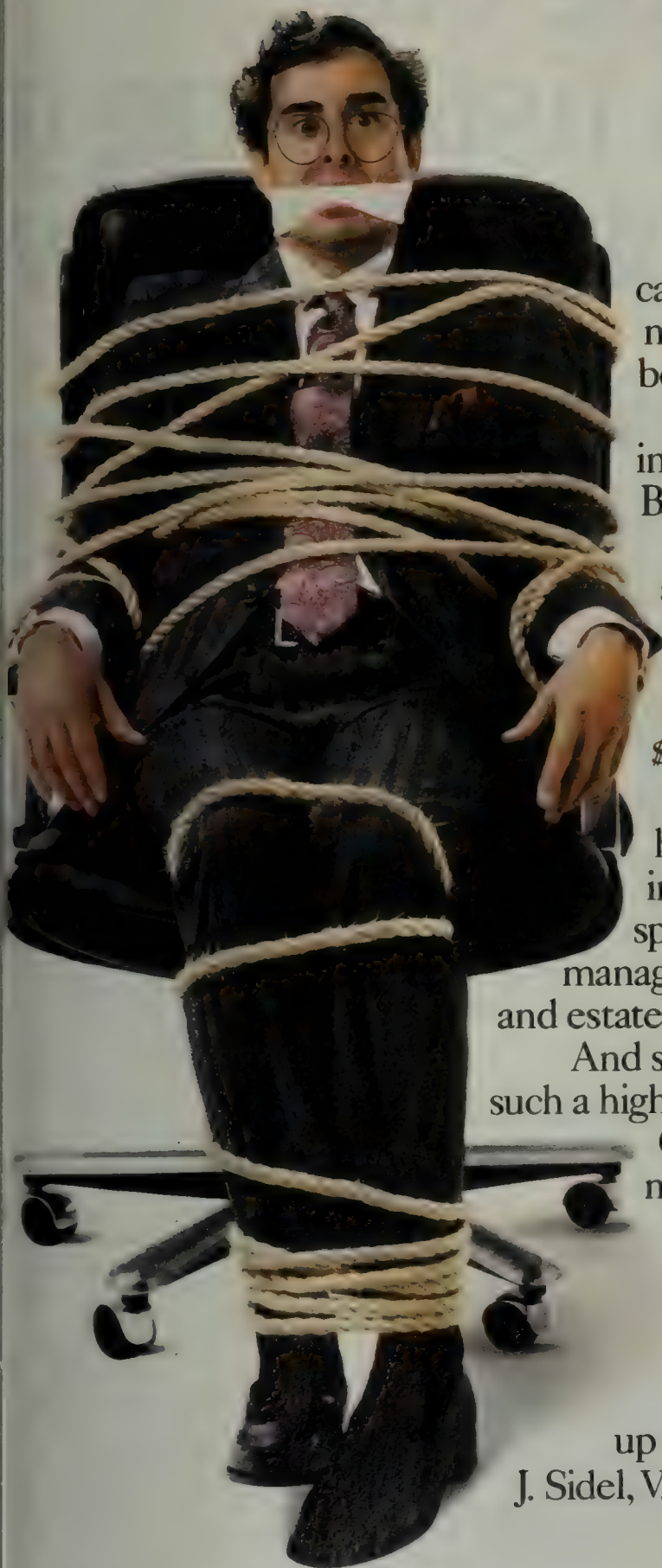
Who's going to be the last guy to buy in? Perhaps the fans. Two years ago the Boston Celtics' owners sold 41% of their profitable team to the public at \$18.50 per share. That price valued the Celtics at a high \$119 million. Last year the team generated \$9.5 million cash flow on revenues of \$26.7 million. But today those limited partnership shares, supported by a generous \$1.60 dividend, trade on the NYSE at 15 1/8. The Celtics' owners took out \$48 million and still control the team. The public shareholders are currently \$8.8 million in the hole—although some value must surely be given to the right to remark loudly in any Boston bar, "Some of the other Celtics owners and I were talking and. . . ." ■

Team angels

Members of The Forbes Four Hundred who own 30% or more of a major sports team.

Name	Team/sport	Est worth (\$mil)
Harvey "Bum" Bright	Dallas Cowboys (football)	\$100
Ed DeBartolo	San Francisco 49ers (football)	100
Leon Hess	New York Jets (football)	100
Jack Kent Cooke	Washington Redskins (football)	90
William Clay Ford	Detroit Lions (football)	90
August Busch	St. Louis Cardinals (baseball)	85
Alex Spanos	San Diego Chargers (football)	85
Gene Autry	California Angels (baseball)	80
Eddie Gaylord	Texas Rangers (baseball)	80
Paul Allen	Portland Trail Blazers (basketball)	70
Edgar Bronfman	Montreal Expos (baseball)	70
Thomas Monaghan	Detroit Tigers (baseball)	70
Hugh Culverhouse	Tampa Bay Buccaneers (football)	65
William Davidson	Detroit Pistons (basketball)	65
Irwin Jacobs	Minnesota Vikings (football)	65
Joan Kroc	San Diego Padres (baseball)	65
Carl Pohlad	Minnesota Twins (baseball) Minnesota Vikings (football)	65 65
Ewing Kauffman	Kansas City Royals (baseball)	60
Robert Lurie	San Francisco Giants (baseball)	60
Ted Turner	Atlanta Braves (baseball) Atlanta Hawks (basketball)	60 60
George Argyros	Seattle Mariners (baseball)	57
David & Richard Jacobs	Cleveland Indians (baseball)	55
Herb & Mel Simon	Indiana Pacers (basketball)	55
Ted Arison	Miami Heat (basketball)	35

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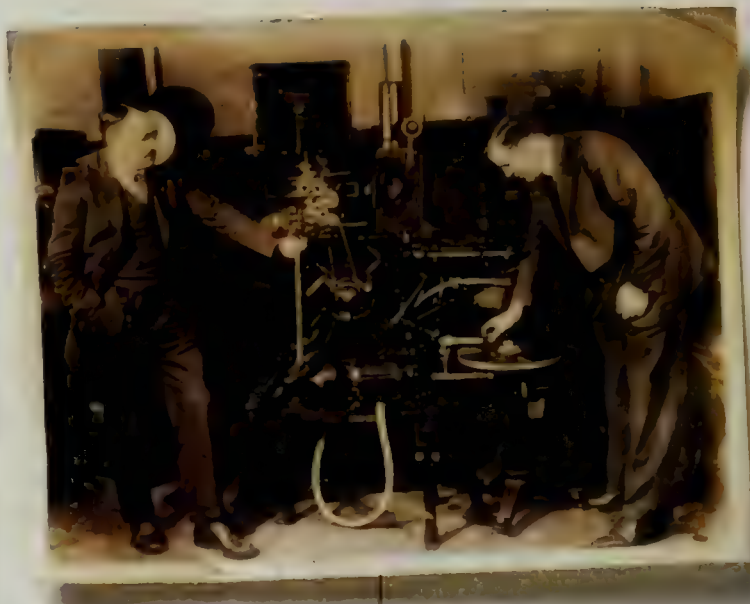
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1933

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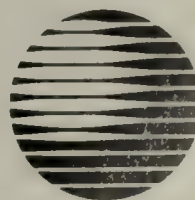
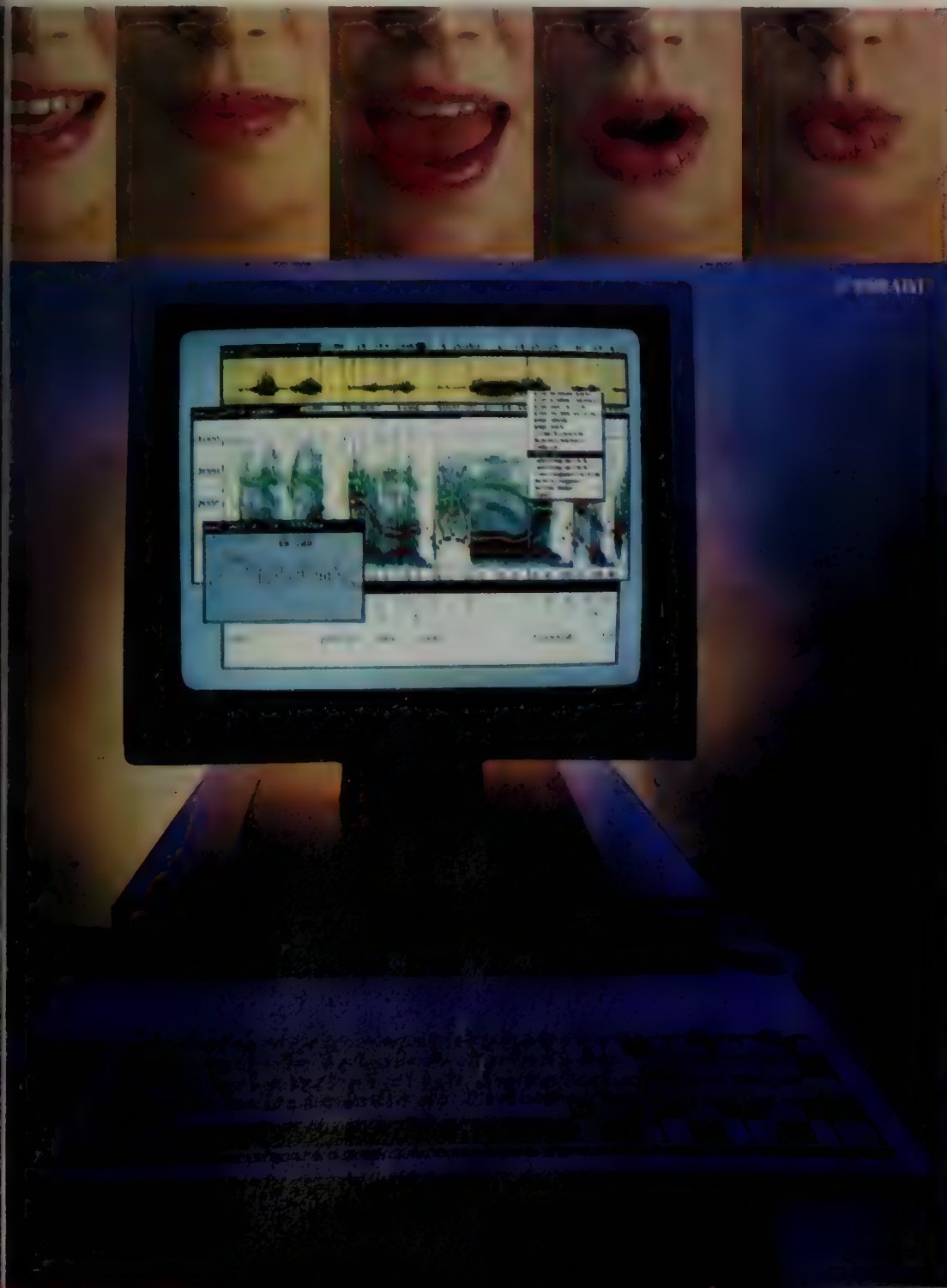


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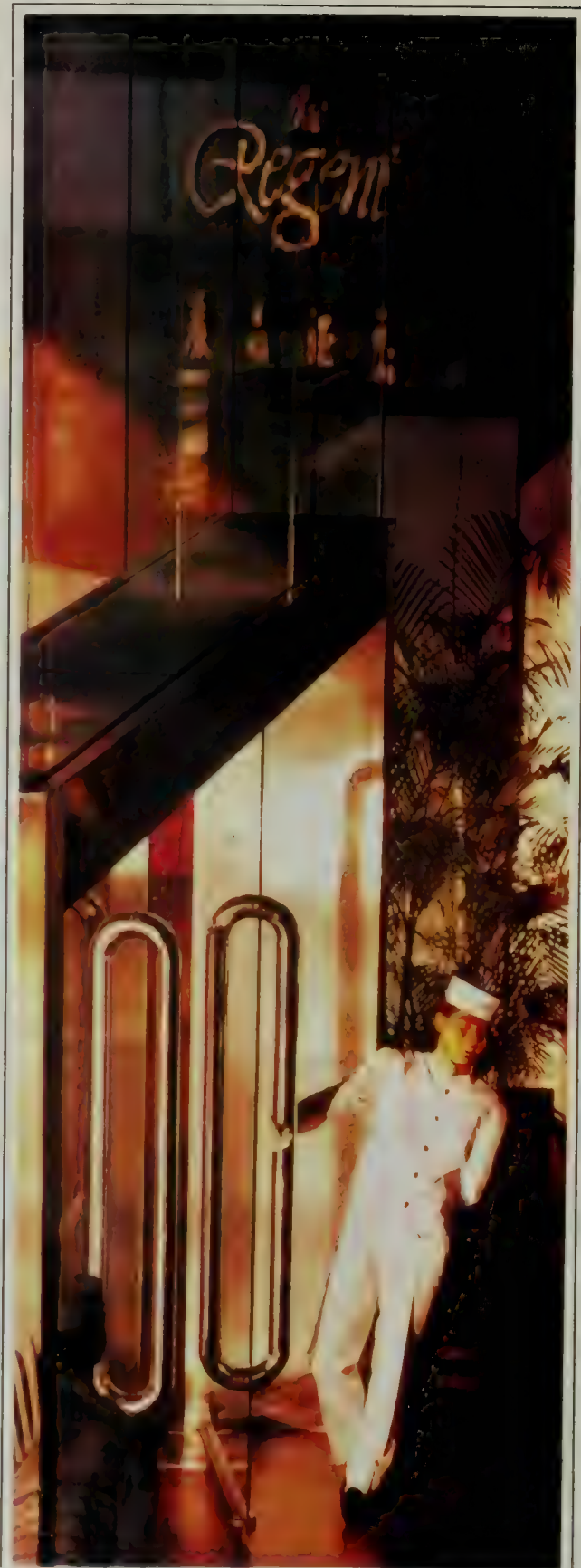
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How and why have cartoonists portrayed the rich the way they have? A noted contemporary illustrator sifts through six centuries of evidence, and reports his thoughts and findings.

"When a rich man sneezes, they set it to music"

By Edward Sorel

CARTOONISTS, AT LEAST THE good ones, the ones whose names endure, are a misanthropic lot. They hate authority, scoff at noble sentiments, mistrust patriotism and abhor conformity. Among their favorite targets are, of course, the very rich and powerful.

Cartoonists have caricatured the rich as sybaritic airheads, doddering womanizers, money-mad exploiters of the poor, and pompous windbags. But despite the vilification, the rich have survived, thrived and multiplied. Nowadays, they are even viewed as heroic figures by many in the media.

Cartoonists themselves have done less well. Magazines that once used their work—*Collier's*, *The Masses*, the old *Saturday Evening Post*—are, alas, no more. Survivors like *Esquire* and *Cosmopolitan* have changed their images and use fewer cartoons—and hardly ever the racy stuff. Newspapers still carry the comics, but aside from "Doonesbury" and one or two other strips, the less said about the comics, the better. Without *The New Yorker*, serious cartoonists would be placed on the endangered species list.

But while lamenting their fall, let's not forget that cartoonists have enjoyed a long and distinguished run—650 years, if we include Cristofani Buonamico. He's the chap who in 1330 began drawing grotesque caricatures with sentences coming out of their mouths—the creation of the cartoon "balloon." But it wasn't until a

hundred years later, after a tiny middle class had emerged in Europe, and the Germans had figured out how to get multiple impressions from woodcuts and engravings, that a market for secular drawings emerged, and the cartoonist as critic of the rich and powerful came into his own.

With the Reformation, printmaking became a growth industry. Suddenly

Edward Sorel is a contributing editor for GQ and The Nation, and draws the "First Encounter" feature in The Atlantic Monthly.

any artist who could draw a devil reasonably well was working overtime in the propaganda war between Papists and Lutherans. The Protestant cause allowed artists to veer toward social criticism, and so we have a print such as "The Rich Man" (see illustration 1), by Hans Holbein the Younger (1497?-1543). The woodcut may not seem particularly inflammatory (or original) today, but its depiction of Death separating a nobleman from his money carried with it the subversive notion that all men were equal, at least in the grave.

Holbein and the other Protestant propagandists were, of course, primarily painters, not printmakers. It isn't until the 18th century that we come upon an artist of the first rank who devotes himself almost entirely to prints. Thomas Rowlandson (1756-1827) had no message of social uplift (as did William Hogarth), nor was he obsessed with politics (as was his contemporary James Gillray). "Rowly" simply enjoyed chronicling his times, which often meant portraying the very rich as gout-ridden gluttons and licentious old fools—much, in fact, like Rowlandson himself.

The public adored Rowlandson's cartoons, and none more than his series called "Comforts of Bath." The spa at Bath was where the English well-to-do came to recover from their various excesses. In the print we see here (2), the rich codger who has come to Bath for his gout sits for a flattering portrait. In a theme very much alive



1. Hans Holbein's "The Rich Man"

2. Thomas Rowlandson's "Comforts of Bath"



Rowlandson Collection, Graphic Arts Collection, Princeton University Library



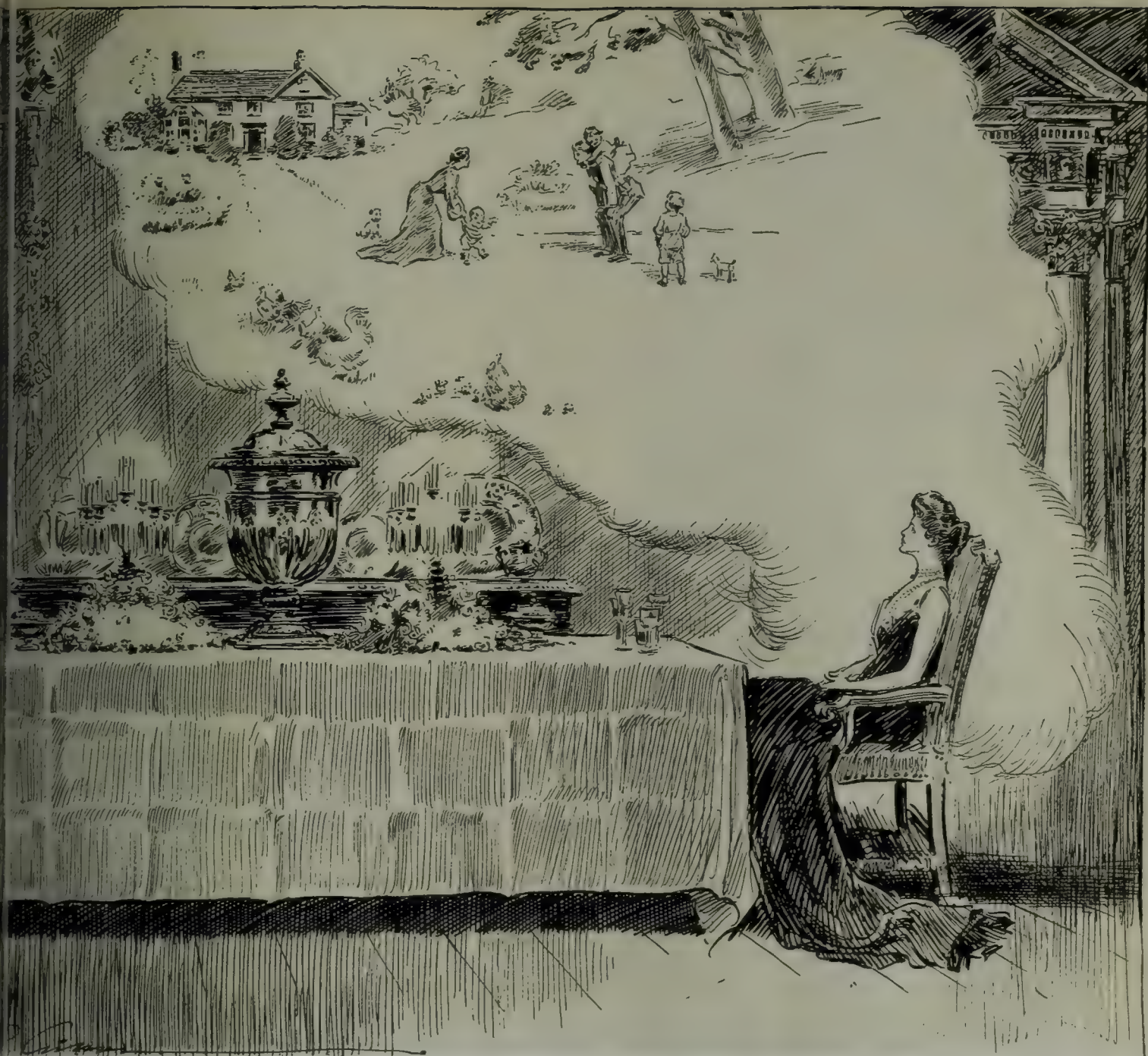
4. Drawing by Bruno Paul

*"It's ridiculous that we have to wear dinner clothes here,
you can't tell us apart from the waiters."
"Oh, yes, you can, they behave decently."*



today, the gentleman's young wife dallies with a handsome dandy. In spite of the wealth of detail in this etching and the deliberate care taken in the shading, Rowlandson's graceful, flowing line makes the picture seem as effortless as a Mozart improvisation. Mozart and Rowlandson were born in the same year, and their witty creations complement each other in their joyous exuberance.

The ease with which rich old men are able to marry beautiful young women has long infuriated cartoonists, who no doubt regard themselves as more deserving. There is roughly a century between Rowlandson and Charles Dana Gibson (1867-1944), but the fact that gorgeous women sometimes marry for money clearly nettles them both. In "A Castle in the Air"



3. Charles Dana Gibson's "A Castle in the Air"

The Granger Collection

(3), a Gibson girl sits at her opulent dining table, facing at a distance her curmudgeonly husband, and dreams of a happy home in the country, nicely landscaped with handsome husband, loving children, fat hens and an obedient dog. The caption lectures, "These young girls who marry old millionaires should stop dreaming."

While Gibson's elegant pen drawings were gracing the pages of *Collier's*, *Cosmopolitan* and the old *Life*, an anti-establishment satirical magazine in Munich was skewering the German aristocracy with cartoons of such ferocity that in 1898 two of its staffers were jailed for six months and another was obliged to flee the country. This splendid magazine was *Simplicissimus*, and its exceptional drawings are still being collected into anthologies by

book publishers today. After 1898 the magazine steered clear of attacking the Kaiser head-on, but it continued to ridicule the clergy, the military and German plutocrats with passionate, emotionally charged pictures. The one reproduced here (4), from a 1902 issue, is by Bruno Paul (1874-1968), who was better known as an architect and interior designer. Paul's brutal depiction of the idle rich is also a remarkable foreshadowing of the expressionist style that would later sweep over Germany.

Unlike their German counterparts, America's turn-of-the-century cartoonists were relatively unconcerned with experimentation. The big money over here was in newspaper syndication, and nothing looks better on newsprint than good old pen and ink.

One of the cartoonists who hit the jackpot early was George McManus (1884-1954), who made a fortune with his strip "Bringing Up Father" (5). Syndicated by Hearst in 1913, it had for its hero an Irish-American bricklayer named Jiggs who wins the Irish Sweepstakes and is forced into high society by his socially ambitious wife, Maggie. The humor was lowbrow, though often arch, but the drawings were stylish, with endearing detail drawn into each panel.

Reuben Lucius (Rube) Goldberg (1883-1970) had a madcap sense of humor that found its fullest expression in his famous "inventions." Yet Goldberg's slapstick approach occasionally reflected social concern. In 1948 he won a Pulitzer prize for a cartoon on the perils of atomic weap-



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Now, to the delight of the former and the continued frustration of the latter, BMW introduces a 5-Series that, in the words of AutoWeek Magazine, "effectively recalibrates the performance sedan benchmark."

VACHERIE, ST. JAMES PARISH.



The new 535i you see here abundantly fulfills the promise of its athletic shape. Its 208-hp 6-cylinder sprints from 0 to 60 in just over 7 seconds, while its sleek, stable and patented fully-independent suspension let you breeze through corners with ease.

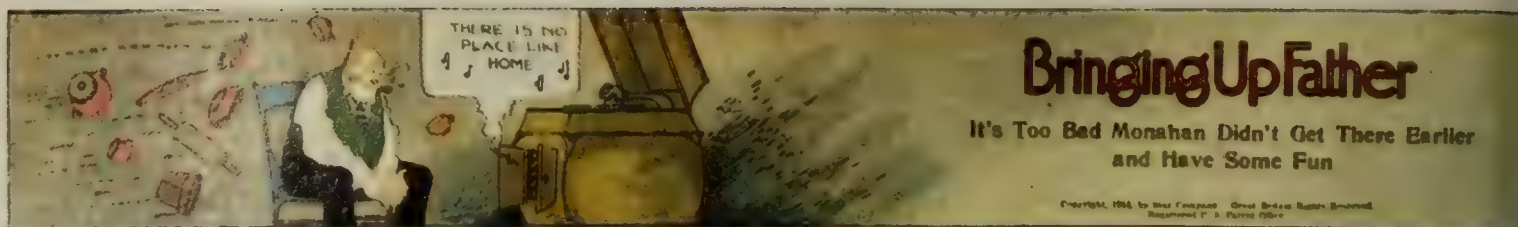
It is roomier inside and provides "almost perfect sound insulation" plus "ride comfort that sets a new standard in this class" (Automobile Magazine).

And its host of inventive safety features includes superior anti-lock brakes and unitized steel construction designed to absorb 35% more impact energy than U.S. crashworthiness standards require.

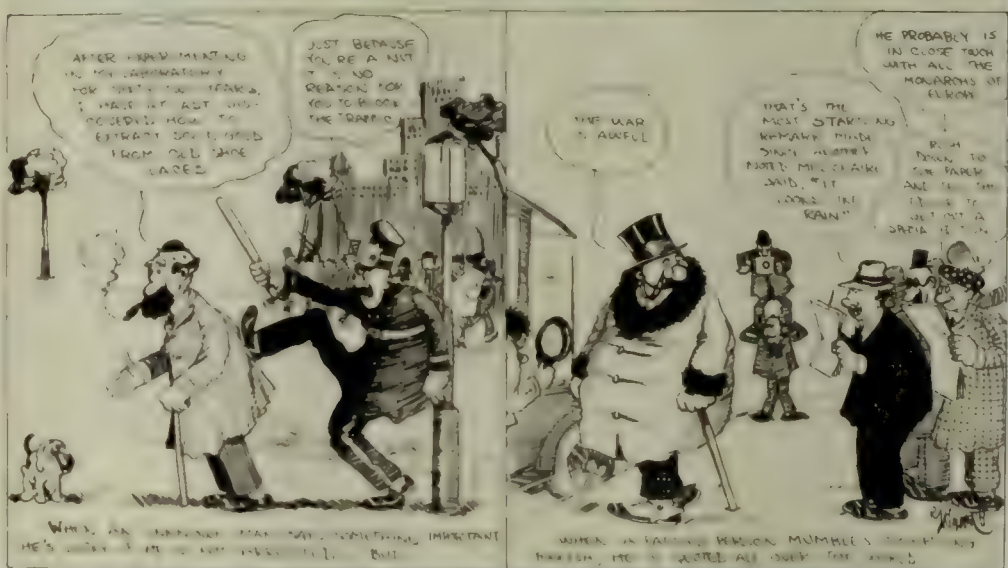
The new 5-Series is impressive on paper. But as a test drive at your authorized BMW dealer will prove, it is exhilaratingly so on pavement.

THE ULTIMATE DRIVING MACHINE.





5. George McManus' "Bringing Up Father"



6. Rube Goldberg's "When a rich man sneezes, they set it to music."



7. Drawing by Art Young

"I'm as good a friend of labor as the next man—but there's no denying the fact that workingmen do spend their money foolishly."

ons. We reproduce here his 1916 drawing captioned "When a rich man sneezes, they set it to music" (6), drawn on the eve of America's entry into the Great War. At that time, as the cartoon indicates, anybody with a top hat and spats felt compelled to blather on about the European conflict.

Radical writers and cartoonists regarded that conflict as nothing more than an imperialist war, and they passionately expressed their beliefs in a left-wing magazine called *The Masses*, published from 1911 to 1917. Under the art editorship of the painter John Sloan, it attracted such socially concerned artists as William Glackens, George Bellows and Boardman Robinson.

The Masses also employed the services of the best polemical cartoonist in America, Art Young (1866-1943). As you can see from the drawing here (7), Young's "gags" could sometimes be heavy-handed, but he had a talent for nailing hypocritical self-justification—at least among the rich. In 1918 the Justice Department brought him to trial for sedition. Young's cartoons, the government charged, were leading American boys to dodge the draft. His defense: "I drew them for the public good." Hung jury, and the government declined to retry him.

Out of the bloodshed of World War I arose the Russian Revolution and, with it, a small army of artists eager to draw the darker sides of the capitalist—the foreign capitalist in particular. This anonymous drawing from a Soviet poster (8) is so heavy with symbols that one can't be certain if the millionaire is meant to be a pig wallowing in money or a tricky spider ensnaring capital in his industrial web. What the heart hanging on the



8. Anonymous Soviet poster

vest chain means is anybody's guess.

Back in the States, propaganda was out and gentle satire was in. What James Thurber called "the great Marathon Phase of American life" had begun. Everywhere he looked, Thurber saw men and women "striving to outfly, outswim, outdance, outwalk, outsit, outtalk, outchew, and outrock one another." The magazine that best captured all this frivolity was, of course, *The New Yorker*. Created by Harold Ross in 1925, it quickly became America's premier outlet for cartoonists.

Prominent in *The New Yorker's* early stable of artists was Curtis Arnoux Peters (1904-1968), who changed his name to Peter Arno and left Yale to lead a jazz band. Tall, handsome and of independent means, Arno was as much at home in a nightclub as these characters he drew in 1928 (9). By the end of the 1920s the popular image of the heiress was that of a beautiful if somewhat neurotic woman who had everything that money could buy but still couldn't find happiness. This stereotype came, in fact, from hundreds of cheap novels and a slew of Hollywood movies. The image of the millionaire male had advanced from Gibson's curmudgeons to include Arno's shallow young dandies.

Then came the Crash. Many of the 1920s' nouveaux riches became the nouveaux poor. But there were still plenty of millionaires for cartoonists to kick around. *The New Yorker's* early tendency to romanticize wealth was replaced by a more mordant look at the privileged class. Even Gluyas Williams (1888-1982), that gentlest of all cartoonists, couldn't resist tweaking the upper crust for their hostility to everything and anything connected with Roosevelt's New Deal (10).



9. Drawing by Peter Arno

"You're so kind to me, and I'm so tired of it all!"

Like Gluyas Williams, William Galbraith Crawford (1894-1978), who always signed his cartoons "Galbraith," had a drawing style that owed much to an earlier tradition. His charcoal cartoons were dramatic, superbly composed and amusing. But before long they seemed a tad too naturalistic for *The New Yorker*. After 1940 they stopped appearing. To those who might consider the Galbraith cartoon shown here (11) sexist, please remember that in the 1930s, the American male's consciousness had yet to be raised, and *The New Yorker* was still getting laughs from cartoons that might now be considered not only sexist but racist as well.

A cartoonist who gained recogni-

tion in the 1950s was Eldon Dedini (b. 1921). For a while, Dedini was drawn to cartoons about satyrs and nymphs, many published in early *Playboy* editions. Another Dedini focus was womanizing millionaires. This drawing (12) appeared in April 1954 in *Esquire*.

We come now to Mary Petty (1899-1976). At this point I must put aside all pretense to objectivity. Petty is my favorite *New Yorker* cover artist. I was unable to get the original of this watercolor (13). What you see here, which has been reproduced from the printed cover of May 3, 1952, gives a good idea of her delicate technique and subtle humor. Her observations on the lifestyles of the rich are sympa-

1985



1986



1987



1988



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to know more about how Prime could help your outfit, call us at 1-800-343-2540 (In Canada, 1-800-268-4700).

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10. Gluyas Williams

*"Here's a new one I heard downtown today—
F.D. and Eleanor were going shopping
and she said, 'Franklin...'"*

Drawing by Galbraith ©1934, 1962 The New Yorker Magazine, Inc.



11. William Galbraith Crawford

I never told her about the depression. She would have worried."

thetic, as if to suggest that being born rich entails its own peculiar problems. One problem the rich have is that they don't really have to do anything. The effete fellow in Petty's cover has had all ambition pampered out of him, which is why, I suppose, we plebeians sympathize with him and laugh at him at the same time.

Petty never formally studied art. Had she done so, I suspect she would never have evolved her personal painstaking style. (You can't hand in your school assignments on time if each picture takes three weeks to complete.) It wasn't just cover art that Petty crammed full of detail, but her cartoons as well. Unlike other *New Yorker* regulars—especially Pete Arno—Petty did not depend on galleys, suggestions from editors or line



12. Drawing by Eldon Dedini

*"Remember, I'm not just an old fool—
I'm a rich old fool!"*

sent in from readers. Her point of view was too personal, and *The New Yorker's* Ross and his successor, William Shawn, left Petty to her own hilarious devices.

After World War II, a young European artist emerged and broke the established boundaries for cartoon art. Ronald Searle (b. 1920) used techniques and concepts that had previously been the prerogative of only "fine artists." By the 1950s Searle's comic creations had become as familiar in the U.S. as they were in his native England. His book *Rocking Chair Across America*, with writer Alex Atkinson, was tremendously popular, as were his features on Palm Springs, Las Vegas, Berlin and other points of interest in *Holiday* magazine. His ob-

NEW YORKER

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13. Watercolor by Mary Petty

Cover by Mary Petty, 1952-1980, for The New Yorker Magazine Inc.



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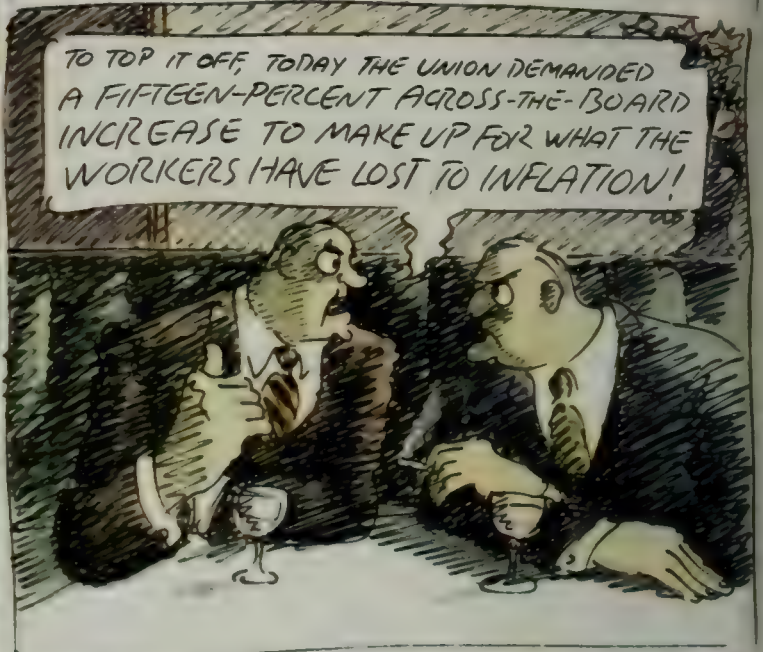
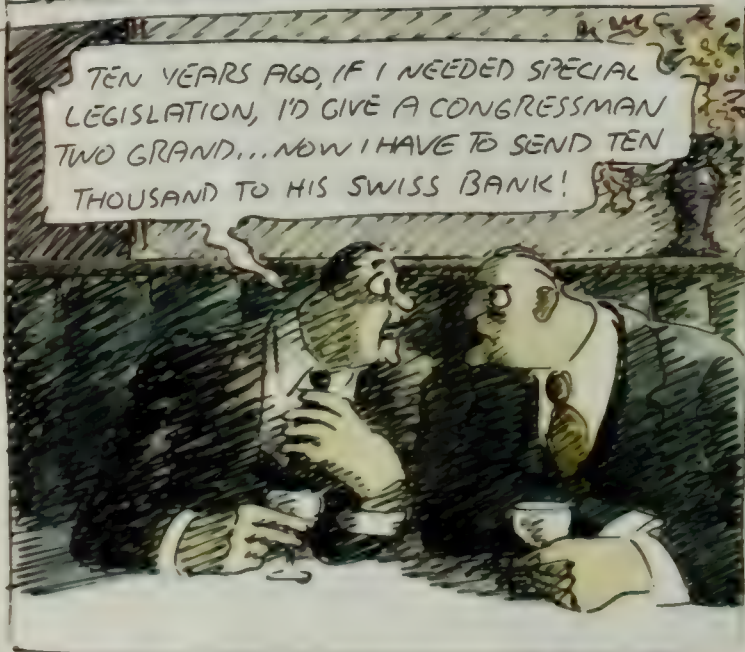
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servations on Germans inspired "The Shrine" (15). This scene of bloated Germans enjoying the spa at Baden-Baden may look a lot different from Rowlandson's "Comforts of Bath," but in both drawings contempt lurks behind the comic exaggeration.

In 1977, when Clay Felker took over ailing *Esquire*, he took with him some of the artists who had worked for him at *New York* magazine. I was one of them. I was given the last page in the magazine to do with whatever I wished, as long as I didn't get scatological or anticlerical. This sequential drawing (comic strip to you nonacademics) (14) was done in 1978, when inflation was approaching double digits and the Lockheed bribery scandal was making headlines.

It would be impossible to close without at least one cartoon from the brilliant Charles Saxon (b. 1920). For



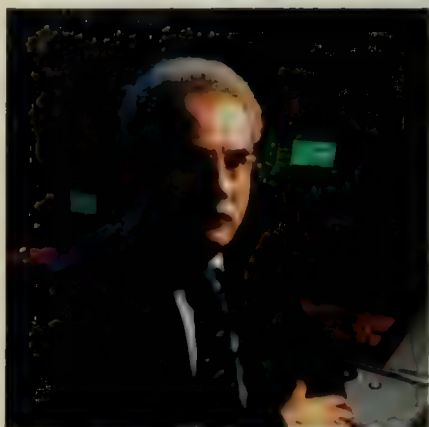
15. Ronald Searle's "The Shrine"

over 30 years Saxon has, in my opinion, chronicled the upper class better than any other contemporary cartoonist. Most of his drawings have appeared in *The New Yorker*, but this one (16) comes from *Town and Country*. It touches on one powerful aspect of wealth that has escaped most cartoonists, namely, the resentment old money has for new money. Or, to put it another way—where's the fun in being rich if so many others are rich also?

When Rube Goldberg retired from cartooning, he was asked to make a prediction for the year 2070. There will be, he said, "politicians kissing babies and making promises, women demanding equal rights, and fathers misunderstood by their sons." He might have added that there will be poor people and rich people, and cartoonists mad as hell about not being among the latter. ■



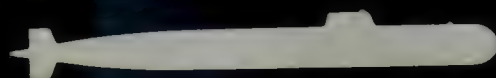
16. Drawing by Charles Saxon: "How can all these people afford it?"



"There's a submarine out there. My job is to find it."

"Submarines are becoming faster, more maneuverable, quieter, and a lot harder to find. At Boeing, we're doing something about it. The advanced detection systems we're building for the United States Navy combine today's latest, best technology. They include

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significantly more effective in
entering submarines than the
at highly skilled specialists and
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In 1896 the first political fat cat set the pattern for national American politics. The country still hasn't come to terms with . . .

The legacy of Dollar Mark Hanna



Marcus Alonzo Hanna, 1837-1904

The trick was making it a matter of systematic assessment.

By Peter Baida

MORE THAN ANY other man, "Dollar Mark" Hanna invented modern political fundraising. The campaign he organized for William McKinley in 1896 established how presidential elections would be financed through most of the 20th century. He proved that a big enough torrent of money could determine the outcome of an election. And it raised a troubling question the country has still not finished wrestling with: What should a democracy full of big private fortunes, bigger corporations and well-financed interest groups do about that fact?

Marcus Alonzo Hanna, who Theodore Roosevelt once said occupied "a position of power and influence . . . such as no other man in our history has had," married the daughter of a Cleveland coal and iron merchant in 1864. Over the next 20 years he made a fortune, mainly in iron and coal, but he also helped organize the Union National Bank, bought the *Cleveland Herald* and the Opera House, and helped develop Cleveland's street railway system. In 1885 his father-in-law's company, Rhodes & Co., was reorganized under the name M.A. Hanna & Co. Its successor still exists, headquartered in Cleveland, though its main business now is plastics.

Hanna was one of the new industrialists with whom the Republican party was allying itself late in the 19th century, and as he became rich, Hanna became political. In 1880 he organized a Business Man's Republican Club in Cleveland, raised funds and

Culver Pictures



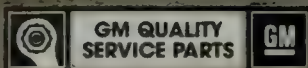
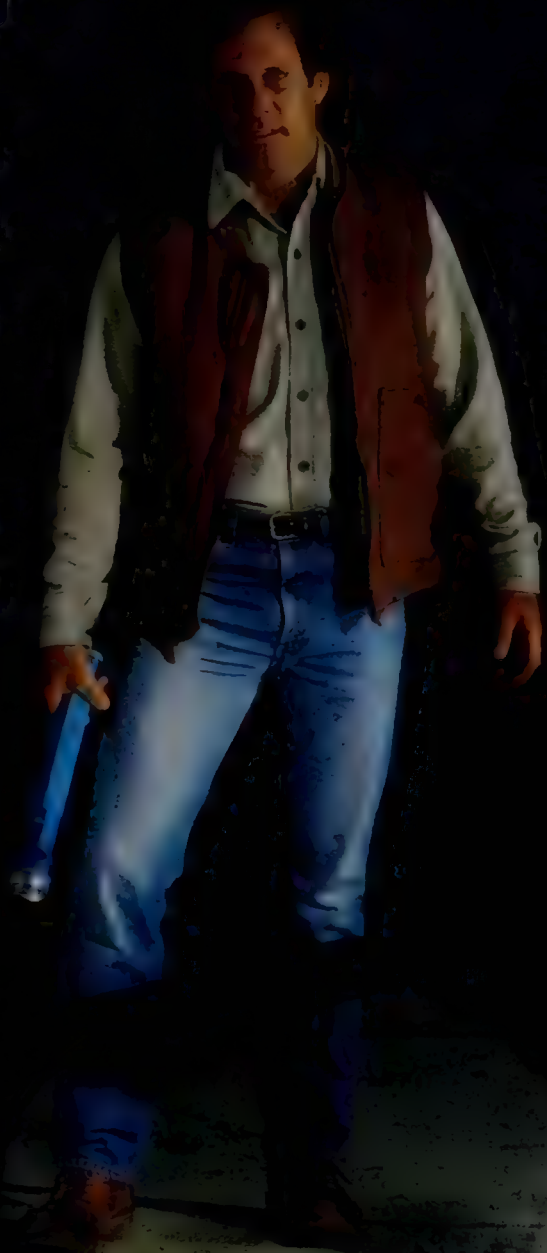
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Hanna and his wife (left) giving a dinner party for President and Mrs. McKinley (foreground), 1898
Hanna's "kindly, dull gentleman . . ." was to save the nation from populism and inflation.

led torchlight parades of businessmen on behalf of the Republican nominee, James A. Garfield. His work won Hanna a place on the Republican state committee in Ohio. From there, he wanted to put a Republican—an Ohio Republican—in the White House.

Hanna had already liked Ohio Congressman William McKinley for his proven party loyalty. He liked him more when, as chairman of the House Ways & Means Committee in 1890, McKinley emerged as an ardent advocate of a protectionist tariff generally favored by business. Soon McKinley was governor of Ohio, and on his way to the presidency.

Perhaps Hanna also liked McKinley because the "Napoleon of Canton, Ohio" was not a terribly forceful man. As described by Kansas newspaperman William Allen White, he was "a kindly, dull gentleman . . . on the whole decent, on the whole dumb," a man who "walked among men a bronze statue, for 30 years determinedly looking for his pedestal." Theodore Roosevelt was even less impressed. McKinley, he said, "had about as much backbone as a chocolate eclair."

And the chocolate eclair's opponent in 1896 was the legendary populist William Jennings Bryan, a tornado of a man, with a tornado's power to excite

and potential to do damage. Bryan scared Hanna and many others as well. Bryan's oratory whipped his audiences into a frenzy of resentment against "the few financial magnates who, in a back room, corner the money of the world."

Free coinage of silver was Bryan's solution to all the nation's woes. The runaway inflation that sober men like Andrew Carnegie, Mark Hanna and Theodore Roosevelt expected to result from free silver terrified them. For all his doubts about McKinley's backbone, Roosevelt would run in the next election, in 1900, as his vice presidential candidate, to help save the nation from the silver-tongued easy money man who "would steal from the creditors of the nation half of what they saved."

Hanna spent \$100,000 of his own money on preconvention expenses for McKinley—in today's dollars, well over \$1 million. Even so, it was clear that this considerable spending would be only a tiny drop in the bucket that would be needed to put his man over. After the convention, as chairman of the Republican national committee, Hanna decided a campaign of education was needed. Deeply affected by the four-year depression just ending, the voters had to be shown that free silver would be a disaster.

Yet as Bryan poured his energies into a hectic whistle-stop campaign, McKinley sat on his front porch in Canton greeting visitors. It would be undignified, McKinley felt, to stump himself. "Looking for all the world like a benign undertaker," historian Thomas Bailey wrote later, McKinley "embalmed himself for posterity."

Fortunately, McKinley did not have to tour, because Hanna organized an army of speakers—1,400 of them—to do it for him. Moreover, in a kind of early equivalent of buying masses of television time, Hanna published and distributed an unprecedented volume of campaign literature. Over 100 million documents went out from the Chicago office, 20 million from New York. This in a nation of 71 million people, of whom that year 13.9 million would vote.

All this activity required organization. In earlier campaigns, as Herbert Croly, the founder of the *New Republic*, wrote in his 1912 biography of Hanna, the state committees had exercised much authority. But under Hanna, as it would be forever afterward for both parties, the national committee "became the general staff of the whole army. The State Committees carried out its orders."

But even more than organization, this campaign needed money. The old

system—"voluntary" contributions from appointed officials dependent on the party for their jobs—was crude but effective: "Two percent of your salary is \$—. Please remit promptly."

But it was not enough. Hanna transformed American politics with one simple change. Instead of soliciting party hacks, Hanna solicited the businessmen, who most wanted to see McKinley beat Bryan.

During the week of Aug. 15, the railroad tycoon James J. Hill introduced Hanna to New York's leading financiers. In raising money, Croly wrote, Hanna "always did his best to convert the practice from a matter of political begging . . . into a matter of systematic assessment." Banks were assessed according to capital. J.P. Morgan gave \$250,000. And companies: Standard Oil gave \$250,000; Chicago's giant meatpackers, \$400,000.

Hanna certainly raised at least \$3.5 million for McKinley—and maybe as much as \$10 million. He himself never revealed the total figure. But even the low estimate was more than had ever been raised before. Multiply everything by 10 or 12 to get current

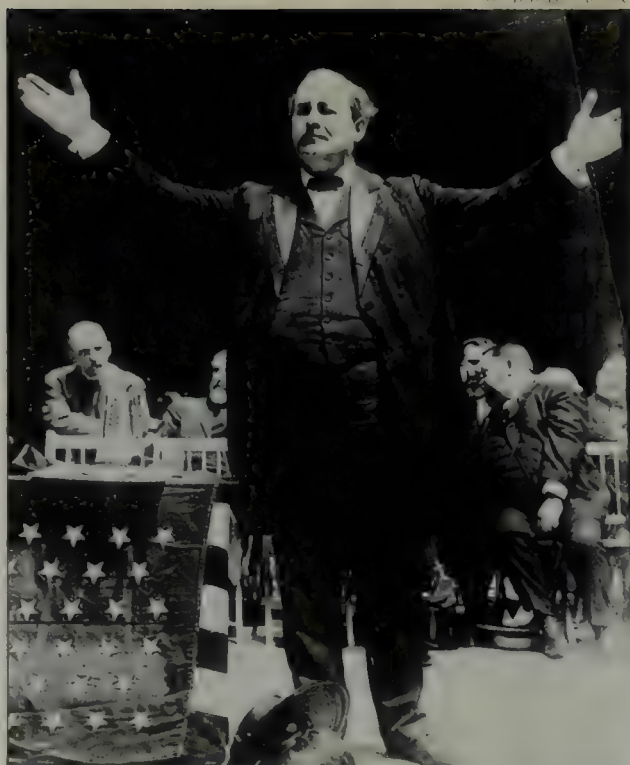
dollars—in real terms, it was comparable to money raised for Richard Nixon in his 1972 campaign. The Republicans hugely outspent the Democrats—perhaps by as much as 20-to-1. And they won.

So, most of all, 1896 ushered in big-

money politics, at a time when the apparent power of big business was already making many Americans uneasy. Under McKinley's successor, Theodore Roosevelt, the Tillman Act of 1907 emerged, which barred corporations and banks from contributing to federal campaigns. Throughout the 20th century, the country would try reforms seeking to undo the political transformation Hanna had wrought.

Hanna died in 1904, at 67, three years before the Tillman Act. Once one of the most powerful men in America, today he is almost forgotten except in a series of cartoon images: Hanna the bloated plutocrat, covered with dollar signs and moneybags; Hanna the puppetmaster political boss, pulling McKinley's strings. Hanna was more complex than the caricature of a Republican political boss—among other things he was an

early advocate of collective bargaining and the right of labor to organize. But the cartoonists had touched one truth: He had put politics on a big-business basis, and for good or ill, politics—and the nation—would never be the same again. ■



Bryan making "Cross of Gold" speech, 1896
Tornado beaten by the chocolate eclair.

The rise and fall of corporate taxes in Georgia.



Since 1969, Georgia's corporate tax rates haven't gone up one penny. We don't know of another state that can say the same. And how many states do you know of that went to business and asked for guidance in restructuring their tax systems? Georgia did in 1971. The result was a zero-based budget that has allowed us to increase our quality of life every year—without raising corporate taxes.

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Write the Georgia Department of Industry and Trade, Dept. FBS, 230 Peachtree St., N.W., Atlanta, GA 30303. Or call 404-656-9306. **GEORGIA** The State of Business Today

The election reform laws were supposed to kick the traditional fat cats out of politics. Many were—and have since been replaced by a new breed of fat cat.

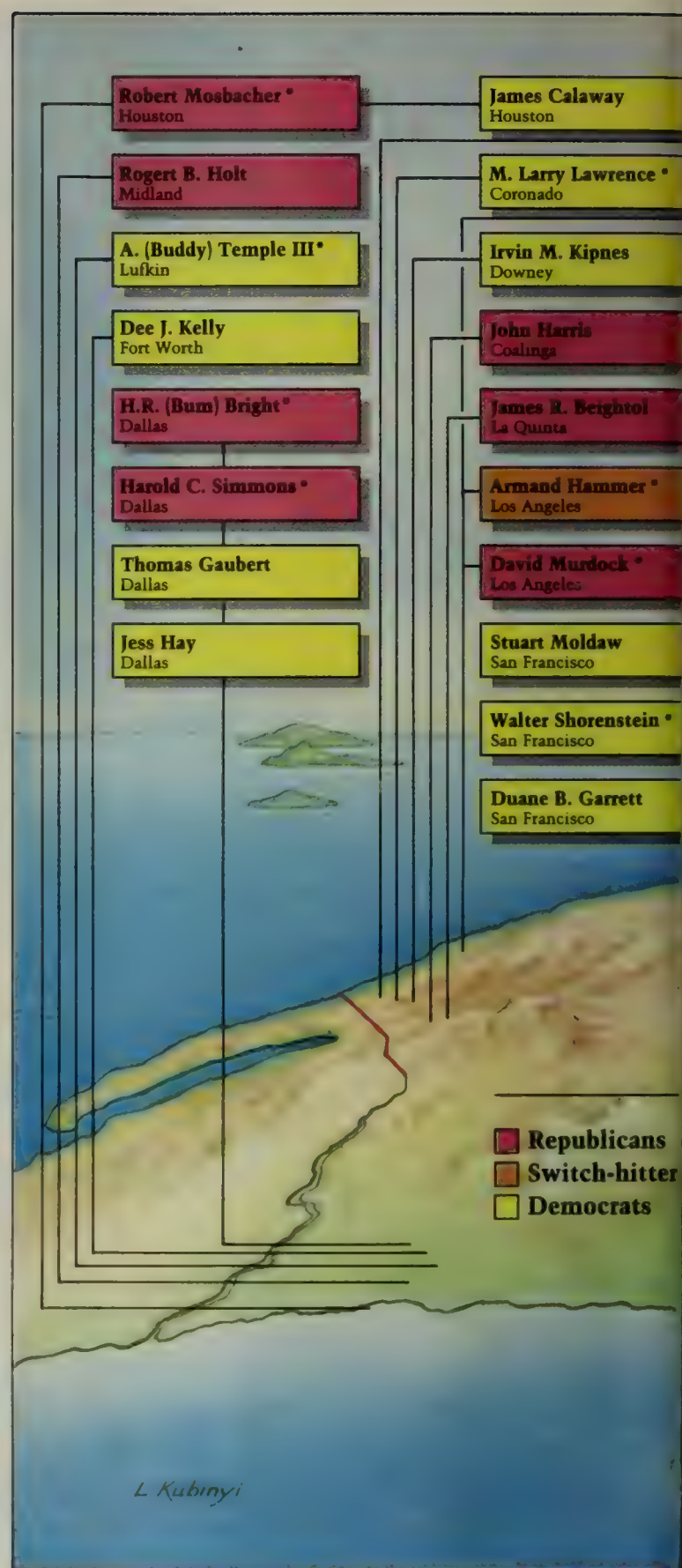
Heavy hitters of politics, 1988 edition

By Robert D. Novak

THE WAY POLITICS IS FINANCED has been transformed since the days when Chicago insurance tycoon W. Clement Stone contributed \$2.8 million to Richard M. Nixon's presidential campaign of 1968 and another \$2.1 million in 1972. Post-Watergate election reforms limit anybody's personal contribution to a mere \$1,000 per election for each individual campaign for federal office, plus another \$1,000 from the donor's spouse. Thus, the problem of raising the \$20 million-plus needed to win a presidential nomination or the \$15 million necessary to run for the Senate in states such as California and Texas becomes an excruciating ordeal.

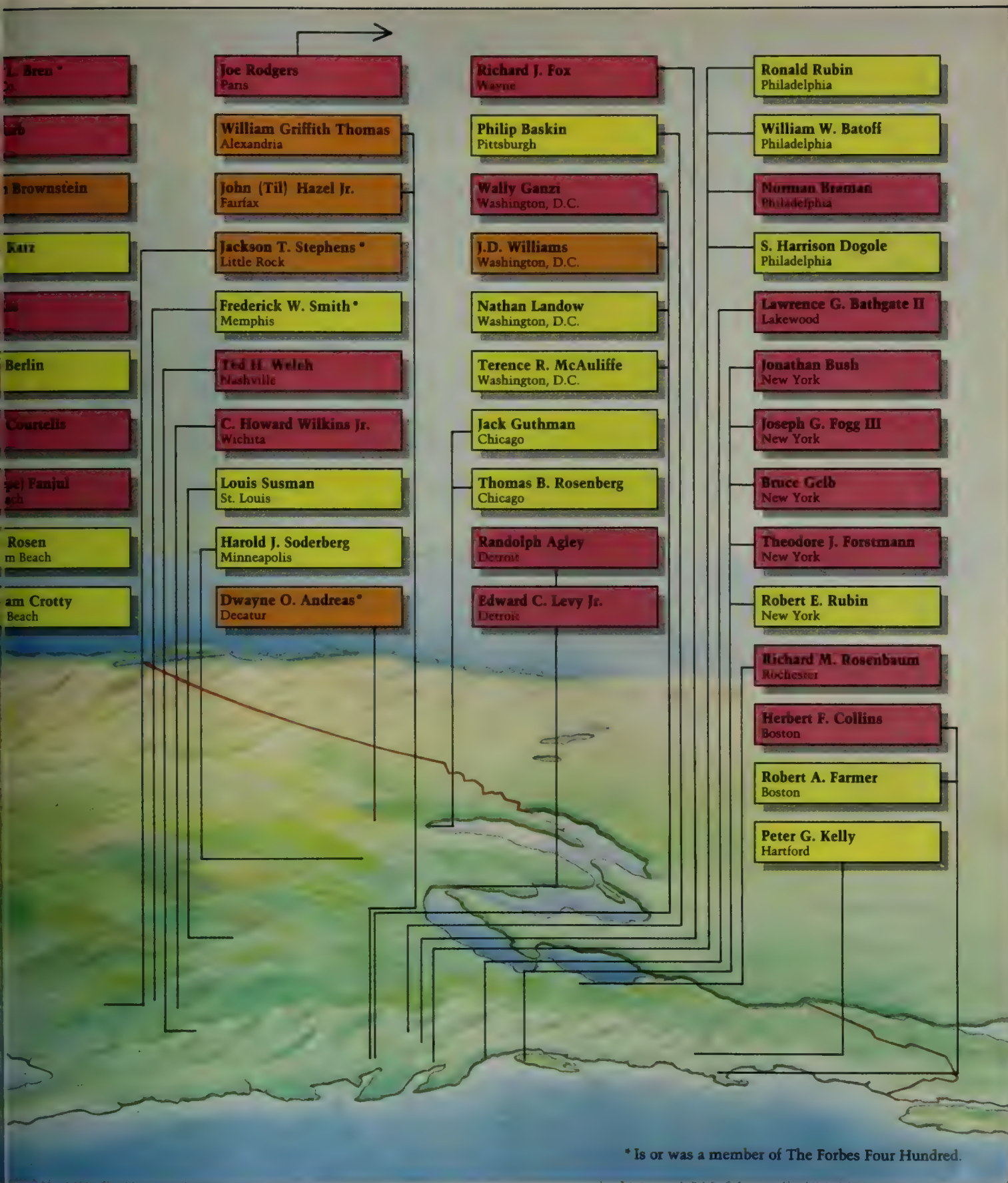
The heavy hitters of 1988 political finance, therefore, are not superrich men who can pull out a checkbook and with one stroke of the pen bring a campaign to solvency. Rather, they are rich or superrich dogged organizers capable of amassing millions in increments of \$2,000 from friends, business associates, and anybody else not willing to displease them. (Oh yes, they can also ask political action committees for \$5,000 apiece per election.) If someone like powerful investment banker Jack Stephens of Little Rock, Ark. asks a significant local businessman for a \$2,000 contribution—which both men know the latter can easily afford—the businessman will think twice about saying no. The point is not being rich, or even superrich, but knowing how to orchestrate leverage.

This is a selection of a nationally syndicated Washington column. Trans-



The superstars of the year are Robert Farmer for Governor Michael Dukakis, and Texan Robert Mosbacher for the George Bush campaign. But the money men who raised millions for candidates who had only remote, outside chances to be nominated for president—such as Albert Gore and Jack Kemp—are perhaps more remarkable for their tenacity in the face of long odds.

The 62 selected heavy hitters of 1988 on these pages compose a consensus based on answers from political managers of both parties to this question: Whom would



Map by Lutz Kuban

you ask for help if you had to build a political war chest quickly today?

They named 28 Democrats and 27 Republicans. Another seven are switch-hitters, who contribute to both parties. But the GOP 27 can probably pull in more money than the 28 Democrats. Otherwise, there are striking similarities:

1. All are male.
2. Only Jerry Berlin is a professional fundraiser, and he used to be a businessman like the others.
3. All are rich, from moderately to vastly so. Twelve are

present or past members of The Forbes Four Hundred.

4. Lawyers and developers of land or natural resources are more common than industrialists or financiers.

5. Most are ideologically committed to liberal or conservative candidates—some, to a single candidate.

6. The experience of most does not go back much further than 1976, the first presidential year in which contributions were limited.

7. Finally, they are not attention-seekers. They work in the back room of politics—and want to stay there.

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All your business decisions would be more consistent.

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All of which can lead to higher profitability.

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Expert System software—just one more example of how The Bigger Picture from IBM can work for you.



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There they labor endlessly, dunning hundreds, even thousands, of people in a meticulously organized way—approaching some directly, staging for others the big cocktail party or the small intimate dinner at home with a circle of friends and the candidate. Or the late afternoon session with the candidate, followed by the phone call asking for money. Whatever will draw the checks.

It's a lot for a busy man with substantial interests of his own to undertake, and not many are willing to. Those who are, with a few exceptions such as the perennial Walter Shorenstein and the classic fundraiser Armand Hammer, tend not to stay in the game very long. A list like this drawn up in 1992 would almost certainly be very different.

What are the rewards? These men are not moved by

The heavy hitters

Republicans

Randolph Agley, 46

Detroit
Chairman, Talon Inc.
Rising young conservative fundraiser, supported Representative Jack Kemp in 1988.

Lawrence E. Bathgate II, 49

Lakewood, N.J.
Attorney
A new heavy hitter. Big fundraiser for George Bush in 1988.

James R. Beightol, 43

Mendham, N.J. and La Quinta, Calif.
President, Wexford International
Rising new heavy hitter, managed 1988 fundraising events for Kemp.

Norman Braman, 56

Philadelphia
President, Norman Braman Enterprises
Owner of Philadelphia Eagles. Involved in politics for a number of years.

Donald L. Bren, * 56

Orange County, Calif.
Chairman, Irvine Co.
Has become a leading money man for establishment California Republicans, playing key role for Bush in that state.

H.R. (Bum) Bright, * 68

Dallas
Senior partner, Bright & Co.
Helping to raise Texas money for Bush.

Jonathan Bush, 57

New York City
Investment manager
The Vice President's brother, a major coordinator in his fundraising.

Herbert F. Collins, 58

Boston
Chairman, Boston Capital Partners
Relatively new, he was a major fundraiser for Senator Robert Dole in 1988.

Alec P. Courtelis, 60

Miami
Chairman, Courtelis Co.
Real estate developer
Key Florida fundraiser.

Mike Curb, 43

Burbank, Calif.
Chairman, CURB Records
A former lieutenant governor of California and a major party fundraiser.

José (Pepe) Fanjul, 44

Orlando, Fla.
President, El Sun Inc., a holding company for family assets
Major fundraiser for Bush.

Joseph G. Fogg III, 41

New York City
A managing director, Morgan Stanley
Dole's main national fundraiser.

Wally Ganzi, 45

Washington, D.C.
Owner, Palm restaurants
Key Bush fundraiser in show business community.

Bruce Gelb, 61

New York City
Vice chairman, Bristol-Myers
Major source of East Coast money for Bush.

Robert B. Holt

Midland, Tex.
Independent oil producer
A key Texas fundraiser for Bush.

Theodore J. Forstmann, 48

New York City
Senior partner, Forstmann Little
While not intending to be a Republican fundraiser, he was the big hitter for Representative Kemp in 1988.

Richard J. Fox, 60

Wayne, Pa.
President, Fox Cos.
A major fundraiser for Representative Kemp in 1988.

John Harris, 45

Coalinga, Calif.
Farmer and rancher
Rising backstage probusiness money source.

Edward C. Levy Jr., 56

Detroit
President, Edward C. Levy Co.
Current president of Aipac.

Jorge Mas, 49

Miami
General engineering contractor
A heavy hitter for conservative money in the Cuban-American community.

Robert Mosbacher, * 61

Houston
Chairman, Mosbacher Energy
A major Republican fundraiser nationally since the late 1960s, he did much to build Bush's huge 1988 war chest.

David Murdock, * 65

Los Angeles
Chairman, Castle & Cooke
Longtime money raiser at presidential level.

Joe Rodgers, 55

Paris
U.S. Ambassador to France
A major GOP national fundraiser for more than a decade.

Richard M. Rosenbaum, 57

Rochester, N.Y.
Attorney
Republican National Committeeman from New York, he is another major source of money for his party.

Harold C. Simmons, * 57

Dallas
Investor
A self-described "corporate raider," increasingly active on behalf of conservative candidates.

Ted H. Welch, 55

Nashville
Owner, Ted Welch Investments
Major southern Republican fundraiser.

C. Howard Wilkins Jr., 50

Wichita
President, Maverick Development Corp.
Important in Republican causes for a decade, principal money man for Senator Dole.

Switch-bitters

Dwayne O. Andreas, * 70

Decatur, Ill.
CEO, Archer-Daniels-Midland
Has supported leaders of both parties dating back to Dewey and Humphrey. Was not involved in 1988.

Norman Brownstein, 45

Denver
Attorney
He has primarily raised money for liberal Democrats in national races, but has also helped conservative Republicans, including Representative Kemp.

Armand Hammer, * 90

Los Angeles
CEO, Occidental Petroleum
His political contacts started with V.I. Lenin; in 1988 they included access to the Reagan White House and fundraising for Senator Albert Gore.

John (Til) Hazel Jr., 57

Fairfax, Va.
Owner and partner in law firm with William Thomas
Normally Republican, but will help selected Democrats.

Jackson T. Stephens, * 65

Little Rock, Ark.
Chairman, Stephens Inc.
A major money source for moderate candidates of both parties.

money, or hope of fat government contracts. In the goldfish bowl atmosphere of Washington politics, wealthy men are foolish to risk scandal and possible criminal conviction by seeking to feather their nests. In part, it is ideological or personal commitment. For many, it also seems to be hope of access, to see the President if one has to.

And most of all, there are the perquisites. A grateful

winning candidate is likely to invite a key early money man to the state dinners with visiting dignitaries, the bill signings, the private dinners in the executive dining room at the White House. Many do relish the glory, the excitement and glamour of being on the inside—and of being known for being inside. Aside from political conviction, this is an ego trip. ■

William Griffith Thomas, 48
Alexandria, Va.
Partner in law firm with Til Hazel
Biggest Democratic fundraiser in Virginia, but helps selected Republicans.

J.D. Williams, 50
Washington, D.C.
Attorney
Preeminent superlobbyist in capital, a conservative Democrat but raises funds for candidates of both parties on national and state levels. Supported Dole and Gore in 1988.

Democrats

Philip Baskin, 67
Pittsburgh
Chairman of law firm with branches in Florida, Pennsylvania, Washington, D.C.
Veteran fundraiser, associated with moderate wing of party.

William W. Batoff, 53
Philadelphia
Owner, Batoff Enterprises
Has developed into party's heaviest Pennsylvania hitter, active in Michael Dukakis' campaign.

Jerome C. Berlin, 46
Miami
Full-time fundraiser
A former real estate developer, he sold his two firms in 1979 to become full-time fundraiser. Especially active in Senate campaigns.

James Calaway, 57
Houston
Owner and chairman, Edge Petroleum Corp.
Major source of funds in Texas, key national heavy hitter (moved to Boston for Dukakis operation).

E. William Crotty, 57
Daytona Beach, Fla.
Attorney
Major fundraiser in Dukakis' highly successful 1988 operation.

S. Harrison Dogole, 66
Philadelphia
Vice chairman, Globe Security Systems
Major fundraiser in past, associated with Impac '88, an alliance of Democratic fundraisers; less active currently.

Robert A. Farmer, 50
Boston
Chairman, Mastery Education Corp.
Unquestioned current superstar of Democratic fundraising. Has conducted Dukakis' fundraising for eight years, in charge of party's overall 1988 effort.

Duane B. Garrett, 40
San Francisco
Attorney
Rising money man, headed Bruce Babbitt's 1988 campaign.

Thomas Gaubert, 48
Dallas
Chairman, Telecom Corp.
Has been a major source of money in the Southwest.

Jack Guthman, 50
Chicago
Attorney
Major Democratic establishment fundraiser in his state.

Jess Hay, 57
Dallas
CEO, Lomas Financial Group
Premier heavy hitter for conservative Democrats; major 1988 fundraiser for Gore.

Earl M. Katz, 65
Phoenix
Consultant and real estate broker
Main Arizona political fundraiser, has raised in excess of \$8 million for Democratic campaigns.

Dee J. Kelly, 59
Fort Worth
Attorney
Big Texas establishment fundraiser.

Peter G. Kelly, 51
Hartford, Conn. and Alexandria, Va.
Partner in Hartford law and Washington lobbying firms.
Former national party finance chairman and treasurer, associated with moderate wing of party. Supported Gore in 1988.

Irvin M. Kipnes, 61
Downey, Calif.
Chairman, Alpase, Inc.
Manufacturer
Major fundraiser for Democrats.

Nathan Landow, 54
Washington, D.C.
Owner, Landow & Co.
Real estate developer, builder
Can put other heavy hitters together in potent combination. Founder and head of Impac '88. Top money raiser in 1988 for Gore.

M. Larry Lawrence, * 62
Coronado, Calif.
Chairman, Hotel del Coronado and associated companies
Fundraiser for Democratic candidates nationally and in California dating back to 1963.

Terence R. McAuliffe, 31
Washington, D.C.
Chairman, Federal City National Bank
Hot young hitter. Recently headed 1988 money raising for Representative Richard Gephardt.

Stuart Moldaw, 61
San Francisco
Venture capitalist
Long a major California source for Democrats, raised funds for Senator Paul Simon in 1988.

Marvin Rosen, 41
West Palm Beach
Attorney
Key fundraiser in Jewish community.

Thomas B. Rosenberg, 41
Chicago
President, Capital Associates Development Corp.
Had been rising young money man in party, very active for Walter Mondale in 1984, but less involved in 1988.

Robert E. Rubin, 50
New York City
Partner, Goldman, Sachs
Backer of Jimmy Carter in 1980, joined Dukakis in early 1988.

Ronald Rubin, 57
Philadelphia
Real estate developer
Longtime fundraiser for Democrats, most recently for Senator Joseph Biden.

Walter Shorenstein, * 73
San Francisco
Owner, Shorenstein Group
Longtime bulwark of party fundraising in California and nationally.

Frederick W. Smith, * 44
Memphis
Chairman, Federal Express
New factor in Democratic fundraising.

Harold J. Soderberg, 60
Minneapolis
Attorney
A longtime political insider and party fundraiser.

Louis Susman, 50
St. Louis
Attorney
Raised funds for Gephardt.

Arthur (Buddy) Temple III, * 46
Lufkin, Tex.
Chairman, Exeter Investment
Raised funds for Senator Gore with members of Impac '88.

Another Trains Arrive



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Could it be that in the bad old pre-Watergate days of unlimited campaign contributions, the candidates did a better job of debating the issues that most voters cared about? A longtime political insider reminisces, and makes a not-unprejudiced case.

The rise and rise of special interest financing

By John P. Sears

MAURICE STANS was standing at a blackboard describing a detailed chart of his organizational plan for raising the money for Richard Nixon's 1968 campaign. In the room was a group of about ten of the premier Republican fundraisers. When he finished, he turned to the most respected man in the room, Jeremiah Milbank, and said, "Well, Jerry, what do you think?" "I don't know, Maury," Jerry said. "All I know about fundraising is that you get in a room and start calling people."

Milbank was correct. Fundraising prior to the 1975 Amendments to the Federal Election Campaign Act mainly involved rich men calling their friends. A national network was in place, organized down to the county level, and when you needed money, the people at the top started making calls. Since there were no limits on individual contributions, the fundraising organization could go to the same sources over and over. Politicians called this "shaking the tree."

If you were running for President, a major factor in convincing the party bosses of your credibility as a candidate was the caliber of your fundraising organization. Primaries didn't matter much—less than a quarter of the delegates were selected in this fashion—and those who controlled delegates had two questions:

Can you raise the money?

Can you win?

In public they often stated these inquiries in reverse order, but if you talked to them in private there was little doubt fundraising came first.

Many people today automatically assume that the post-Watergate campaign financing reforms are a good



thing. But are they? In the days when there was no limitation on individual contributions, and no federal funds for financing presidential campaigns, major donors and those who had their confidence could exert tremendous power over who got nominated for public office and what their views were. But the remarkable thing was that few of them took undue advantage of their importance. In the main, they were decent people whose primary interest in political giving was the hope of better government. Clement Stone, the insurance magnate, gave a couple million dollars to the Nixon campaign in 1968. It was well known that Stone wished to be appointed Ambassador to the Court of St. James's, but Nixon chose Walter Annenberg instead. Stone proceeded to give Nixon a couple million more in 1972, because he thought Nixon was a good President.

Accounts of fundraising in the old days make it sound as though ambassadorships were auctioned off, Cabinet appointments sold and positions on the issues altered abruptly, all to please major givers. The truth was

that most big givers didn't want to move to Iceland to be the ambassador there, and few had any great interest in being an overworked Cabinet official. Usually, the chance to express their views to the candidate and his promise to consider their perspective was sufficient.

Huntington Hartford wanted more done about the arts. Roger Milliken wanted protection for southern textile manufacturers. Independent oil producers from Texas and Louisiana wanted a promise to retain the oil depletion allowance. A variety of entrepreneurs wanted less federal regulation. Nixon promised relief to all these interests, but the closest he came to compromising his beliefs was his vague promise to Huntington Hartford to give higher priority to the arts.

Some people did make unreasonable demands, almost never successfully. There was the gentleman who was willing to give \$1 million if Nixon would promise to spend two weeks each year living in the Soviet Union, the man who promised \$2 million if Nixon would publicly state his intention to abolish the Social Security system, and the guy, frightened by estimates of world population growth, who wanted Nixon to promise free condoms and birth control pills for everyone in the world. All of these individuals were allowed to keep their money.

For a party supposed to be so sympathetic to big business, it was amazing how little a role big business played in Republican fundraising. The truth was the giant corporations had

John P. Sears was executive director of Nixon for President in 1968 and campaign manager for Ronald Reagan in his 1976 and 1980 campaigns

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Carter Goodrich

found that business could be just as good under the Democrats as the Republicans. Many found themselves possessed of large federal contracts resulting from profligate federal spending and to some degree feared that Republican talk of balancing the budget might end this largesse. The executives of the larger corporations tended to be Republican, and if you could get to them, they could be embarrassed into giving you \$3,000 just for old times' sake. But there was usually little enthusiasm or commitment in this transaction.

Oddly enough, the biggest problem in the old days was not the laws on political giving but the tax code. A person who gave more than \$3,000 to a political fundraising committee could be assessed a gift tax. Political campaigns therefore had to invent enough fundraising committees to accommodate their largest donors with enough \$3,000 increments.

The Nixon campaign of 1968 had hundreds of such committees, with names such as Hairdressers for Nixon-Agnew, Committee for Peace Through Strength, and Southeastern Egg Producers. The names bore no real relation to those who contributed, and the officers had no duties except to sign their names to the documents recording their existence. I re-

member once having to stay up until 3 a.m., mechanically signing my name to a mountain of papers that reflected all the finance committees for which I had been listed as chairman or treasurer. I knew nothing about what was in the papers. I had not even volunteered for this privilege. It was accepted that campaign officials would automatically cooperate because they could be easily located when report time came due.

The Watergate scandal ended the good old days of political fundraising. Beating their chests about the abuses of the 1972 campaign, the Democrats wrote a political fundraising law intended to deny Republicans their natural fundraising advantage. Individual contributions were limited to \$1,000 (per candidate per election) and candidates were encouraged to raise money through direct mail by the promise of federal matching funds for up to the first \$250 of contributions.

Now the Democrats, too, are discovering that the campaign finance reforms are having unintended consequences. By destroying the right of individuals to commit as much money as they wish to candidates, the Democrats have, in effect, placed the highest office in the land on a different auction block, where special interests that draw bloc voting in prima-

ries can force candidates to alter their views in order to please them. Under the old system, a candidate that was able to convince four or five like-minded wealthy individuals of his abilities was insulated from such pressure.

Clifford Folger, a self-made multimillionaire who was a heavy contributor and fundraiser during the Eisenhower years, once put the matter of political fundraising in its proper perspective. "A candidate for President," said Folger, "should be free to do or say what he thinks is best for the country. The fundraising system and the people who raise money for him should give him this freedom."

Today, however, presidential nominees come to the fall campaign pledged to advance the interests of homosexuals, pacifists and organized labor if they are Democrats, and anti-abortionists, the National Rifle Association and anti-Equal Rights Amendment interests if they are Republicans. It is a bad system that reduces men who wish to be President to a discussion of issues that have little bearing on the major responsibilities of the office. The country was better off when a candidate's major flight from principle involved promising Huntington Hartford that the arts would be given a higher priority. ■

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AIR FRANCE

Why do so few wealthy Americans run for public office? Six members of The Four Hundred who have braved the dangers and run explain some of the disincentives.

Dan Quayle, boy exception

By Jill Andresky

SENATOR AND Republican candidate for Vice President Dan Quayle is exceptional in more ways than one. This nephew of megarich media baron Eugene S. Pulliam is one of the very few members or close relatives of members of The Forbes Four Hundred who have ever served in elected office. A survey of The Forbes Four Hundred reveals only about 15—even counting the Kennedy clan and others found in our family groups section. Fewer still would talk about the experience.

A few weeks before Dan Quayle was put on the Republican presidential ticket, Congressman Amory Houghton Jr. (R-N.Y.), 62, explained why the country's economic elite rarely try to join the country's political elite—and adumbrated the problems young Quayle would soon have with the media. "It's tough to put your name on the line when the newspapers and public are watching," said Houghton, who served as chairman of Corning Glass Works (the company his great-great-grandfather founded) for 19 years before running for Congress in 1986. "When you do it, you're looking down the barrel of a gun. You realize you can be completely embarrassed in front of your family and friends."

There are other dis-

suasions. "A lot of business people don't want to put their finances under scrutiny—not because anything's wrong, but because they just don't want the media pawing all over their personal lives," says Arthur (Buddy) Temple III of the east Texas lumber Temples. Temple was elected to Texas' House of Representatives in 1972 and served until 1981. The pawing "got to me after a while," Temple admits, "but I couldn't complain too much because I helped pass the bill that called for tougher financial disclosure by Texas politicians. So I

knew what I was in for."

Then there's the vast difference between the world of business and the world of politics. "When someone from The Forbes Four Hundred gives an order, it gets carried out," observes Kim McQuaid, a historian and author of the book *Big Business and Presidential Power*. "But in politics, you make a decision one day and you can count on the fact that someone will try to undo it the next day."

McQuaid adds an interesting point. No matter how wealthy, elected officials must start their careers at the bottom of a complex pecking order, something few successful business people wish to do. "Wealthy business people," notes McQuaid, "want to spend their time dealing with the President, because he's the chief honcho." So it is not surprising that many of the superrich tend to get involved in politics as presidential appointees to the Cabinet, as Andrew Mellon and William Simon did, or on high-powered commissions, as Joseph Kennedy did, or as behind-the-scenes money men (see story, p. 72).

Another problem: what to do with the family business while serving the public? William Hobby Jr., son of Oveta Culp Hobby and currently lieutenant governor of Texas, has continued to work part time in the family's media operations throughout his political career. Stewart Bainum Jr. wound up working seven days a week, juggling his responsibilities at Manor Care, a long-term health care and lodging company, during his eight-year tenure as a Maryland state delegate and senator. "Luckily, I was single and the legislature was only in session 90 days a year," he recalls. "But I still had to spend a lot of evenings knocking on doors while working in the Manor Care office 80 hours a week."

Ben Hill Griffin Jr., the citrus magnate, served as a state representative and then senator in the Florida state legislature for 12 years while at the same time running his own citrus fruit business. But then the state switched from biennial to annual sessions. He left politics after he ran for governor. (His wife was his running mate



Amory Houghton Jr., Congressman (R-N.Y.)

"You're looking down the barrel of a gun."

ring that unsuccessful 1974 bid.)

The media don't always pry deeply into the personal and financial lives of candidates from wealthy backgrounds. While Quayle's background has been publicly dissected, for example, there hasn't been much discussion of Senator Lloyd Bentsen's wealth. Yet Bentsen's influential Texas family has been estimated to be worth around \$100 million.

When they do occur, the media onslaughts don't always succeed. Recalls Amory Houghton: "Naturally, my opponent used it [family wealth] against me, charging that I wasn't a man of the people because I didn't have to scramble to support my family and a mortgage." But Houghton won, handsomely. Manor Care's Bainum, who calls himself a "progressive Democrat," was labeled by his opponents "a spoiled rich kid." He countered by knocking on "thousands and thousands of doors" to give voters face-to-face chance to decide otherwise. Says historian McQuaid: "It's all a question of positioning yourself as a successful, risk-taking entrepreneur and not a rich wimp."

As Joseph Kennedy showed in the 1960 presidential election, family wealth, skillfully used, is generally worth the effort to defend it. The Kennedy money still influences American politics. Apart from Senator Edward Kennedy (D-Mass.), there are young Congressman Joseph Kennedy II (D-Mass.) and 21-year-old Patrick Kennedy, Teddy's youngest son, who just won his party's nomination for the Rhode Island House; there is no Republican opposition for the seat.

West Virginia's Democratic Senator John D. Rockefeller IV is cut from a different block. "My father was nonpolitical and so was



Arthur (Buddy) Temple III
"I knew what I was in for."

I," he says. "But in the 1960s I joined Vista and went to West Virginia, where I did community organizing at an ex-coal camp. There was never any bolt of lightning for me that made me realize I wanted to get involved with politics. But I took on so many fights for the 256 people who lived in that town that I slowly realized I could

with the state budget" during his 16 years in office. As a freshman delegate Stewart Bainum Jr. was quickly appointed to Maryland's House Ways & Means Committee and, as a freshman senator, to the Senate Budget & Taxation Committee.

"I felt well qualified," says Bainum, who was active in working out Maryland's savings and loan crisis in 1985, "because I'd been in business school, had worked for the family business for six years and was used to reading contracts and analyzing budgets."

In all, it's too bad that fears of the media's no-holds-barred intrusion into their private lives helps keep many wealthy—and, for that matter, not so wealthy—Americans from participating more fully in American political life. Representative Amory Houghton puts it well when he says: "The U.S. debt, the deficit, trade problems—these are not amateur issues. What you bring to the table as a politician is important. And people from my kind of background do have a lot to bring to the table." ■



Ben Hill Griffin Jr., former Florida legislator, and wife Eleanor
A part-timer who didn't make it to full-time.

The mystique of old money does mean something to somebody besides the people who have it. Newport, R.I., for instance, has made it a tidy local industry.

Doing the Bellevue shuffle

By Lisa Gubernick

NEWPORT, R.I., the so-called Queen of America's resorts, was in rapid decline not much more than a decade ago. As George Ballantyne, vice president with Sotheby's Real Estate in Boston, puts it, "The city was on the verge of becoming the Miss Havisham of summer colonies."

The two underpinnings of this idyllically located island, lapped by the Atlantic Ocean on one side and Narragansett Bay on the other, were coming apart. The summer colonists who had made the seaside city, with its 31,000 souls and near legendary summer mansions, a haven for America's aristocrats were aging, and their children weren't coming back. Things really started to slide in 1973, after President Nixon ordered the Navy to pull out its fleet of 30-odd destroyers, which had helped support the other side of town. By 1978 things had gotten so bad that Edgell, a magnificent stone edifice on 40 acres of oceanfront property once owned by the Manice family, old-line Newporters, was sold for just \$750,000 to become a rehabilitation center for alcoholics. The market for the other grand mansions that ranged up and down picturesque, winding Bellevue Avenue, Newport's heart, was equally depressed.

"You couldn't touch Edgell for three times that much today," says Michele Andrade, general manager of

Carey, Richmond & Viking, the real estate broker that handles many of Newport's tonier addresses. When Clarendon Court, the seaside manse once home to Claus and Sunny Von Bulow, went on the market last summer for \$3.9 million, there were six bidders. Reported purchase price: \$4.2 million.

Newport shook off its decline through the unlikely mating of new money and old money plus a booming influx of tourists. Revenues from tourism this year should exceed \$250 million, nearly double the amount in 1983, and that was the last year the America's Cup race was held in Newport. Over the last ten years the number of hotel rooms has doubled, to nearly 2,000, with virtually every one booked months in advance between June and September.

What happened?

"We needed something to replace the fleet," recalls Newport Mayor Robert McKenna. "We realized the main reason people come to Newport is to see those mansions. We decided to market the Bellevue Avenue mystique." Duffy & Shanley, the Providence-based agency for the Rhode Island Tourist Authority, became the Ralph Lauren of tourism: It conceived a campaign capitalizing on the appeal of aristocracy. One of the series of advertisements, which ran in publications like *HG* and *Glamour*, features a young woman romantically posed on the terra-cotta balustrade of Rosecliff. Rosecliff is a modest Bellevue Avenue



*Inside the Breakers
Glimpsing a gilded past.*



"cottage" modeled after the Grand Trianon, a neoclassical palace built for Louis XIV. Another ad, which ran in *Family Circle*, pictures a trio of T-shirted tourists, also in front of Rosecliff. The ad's caption: "The Vanderbilts, the Astors, the Belmonts and the Smiths. Come meet some of the great American families who vacation in Rhode Island."

There has even been a special push to go after the Japanese and the almighty yen. Five years ago Newport launched the Black Ships festival, a Japanese/American festival celebrating the fact that a Newport native, Commodore Perry, opened trade with



Tourists streaming down Newport's wharves
adding nearly \$250 million to the city's coffers.

apan. Last year thousands of Japanese were among the 1 million tourists who crossed over the Newport Bridge to troop through the six mansions that Newport's Preservation Society maintains for the public.

Social Newport begins at the top of Bellevue Avenue, the winding road that represents the apex of American resort extravaganzas. Along that boulevard, side by side, is a procession of cottages—multimillion-dollar mansions unequaled in the annals of architectural excess. They are relics of an era, the end of the last century and the beginning of this, in which conspicuous consumption was raised to

the level of art form. Hostesses shyly revealed they could give dinners for 100 without calling in extra help. Each dinner at such an affair was attended by a liveried footman. Ten-course meals were eaten off solid gold services. At one dinner a stream flowed tastefully down the middle of the table. At another, the center of the table was covered with sand; each guest had his own small sterling silver pail and matching shovel. At the end of the evening, the guests dug for favors: emeralds, rubies, sapphires. It was an era in which \$200,000 was spent on a single ball.

But the creation of income tax in

1913 brought Newport's era of glittery excess to a screeching halt; the Depression finished it off. By 1937 the seaside resort had, in the words of social historian Dixon Wecter, become "an aged Gargantua . . . no better symbol of the Twilight of the Social gods."

But a few remnant godlets survive, living relics of their glittering ancestors, who provide a breath of life for the museum pieces they inhabit. "Nobody would come to see our houses if there were no animals in the zoo," is the way John Winslow, president of the Newport Preservation Society, puts it. Doris Duke still sum-



A cluster of condos
The ambiance sells.



Newport from the air
Marketing the Bellevue Avenue mystique.

mers at Rough Point, reclusive behind the high walls topped with barbed wire. But her presence is felt most strongly along the waterfront; for the last two decades she has helped fund the multimillion-dollar restoration of the 18th-century colonial houses lining the winding streets approaching Newport's wharves.

Countess Antony Szapary, far more visible, still resides in a 14-room suite on the third floor of the Breakers, the grandest cottage of all, built by Cornelius Vanderbilt and now owned by the Newport Preservation Society. Last summer some 500 guests (nearly half of them out-of-towners) paid \$300 a head to attend the Preservation Society's annual ball at the Breakers, most hoping to glimpse a piece of New-

port's past. They weren't disappointed. The countess ventured down from her suite, camera in hand, to take pictures as the crowd danced away a summer evening in the ballroom built by her grandfather.

It's not just the tourists—be they day-trippers or ballgoers—who buy Newport's aristocratic image. Over the last dozen years real estate developers have swarmed in. "The ambiance of 19th-century elegance is still evident in Newport, and it sells," says Jay Schochet, a Boston-based developer responsible for one of Newport's first condominium projects. Others have followed in Schochet's path. Where once were fishermen's wharves and seedy sailors' bars now stand a welter of condominiums and

shopping malls.

The transition hasn't come easily. "What I find so tragic," sniffs Countess Szapary, "is that it was done in such poor taste." She is not alone. But despite such reservations, old money has reluctantly accommodated the new. Schochet, for example, plays court tennis at the Casino on Bellevue Avenue alongside the scions of some of Newport's oldest families.

Over the last half-dozen years there has been a steady influx of new summer residents, New Yorkers, Bostonians, Palm Beachers and Texans, snapping up Newport estates nearly as quickly as they come to market. Two years ago John Mashek, an oil heir from Palm Beach, bought Fairholme, a 20-room Tudor mansion, priced at \$1.8 million. That same year Sally and John French—she is a private banker at Citibank, he is a Manhattan-based venture capitalist—paid over \$1 million for Oakwood, an 1850s summer mansion. The appeal? "It's nice having elegant neighbors," says Sally French. "Newport is quiet elegance."

For how long remains to be seen. "What does it take to make it into Newport society today? Money helps," says Robert Corbin, who heads Private Properties, a local real estate firm. Anything else? "People here entertain formally. If someone can do that, it makes it easier."

So the standards are down a tad. Spouting Rock Beach Association—Bailey's Beach to the cognoscenti—is constantly expanding membership rosters. Yet there are distinctions remaining: There's a shortage of beachside cabanas. "In order to get one," says the club's president, "someone has to die. Usually I have people calling about cabanas before they've held the funeral." Another Newport patriarch, whose family has summered in Newport since before the turn of the century, puts the old guard's view with refreshing bluntness: "We need a new millionaire or two a year in order to survive."

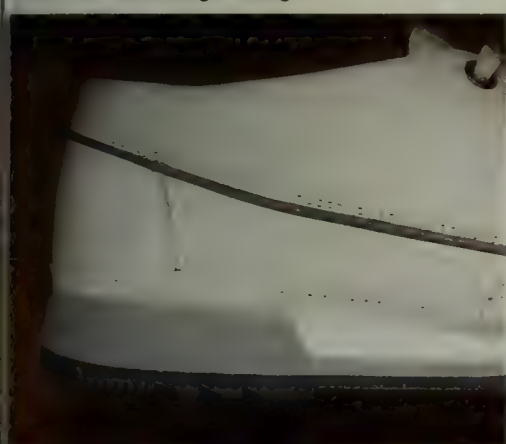
That same sort of Yankee pragmatism affects the old-liners' attitudes toward the tourists. John and Eileen Slocum (she is a 12th-generation Rhode Islander with ties to John Carter Brown, founder of Brown University), for instance, live in a rambling stone mansion on six acres bordering Bellevue Avenue. The Slocums are currently trying to manage their Bellevue estate so they can keep the house in the family. "If it weren't for the money the tourists are bringing in," says Slocum, "our real estate taxes would be even worse." ■

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Nearly a century before *FORBES*, the New York Tribune made a serious effort to name the richest people in America. Among other things, the Tribune list confirms that private American wealth can fall victim to poor business judgments and spendthrift heirs.

The Tribune 4,047

IT'S AN ELECTION YEAR, and the conventions are fast approaching. Both parties are nervous. The mood of the country is volatile, the stock market ragged with fear that a depression looms. Two issues arouse passions: protectionism and the money question. The incumbent Republicans, desperate to hold the White House, find themselves saddled with a dull, uninspiring candidate.

The year was 1892. Reluctantly, the GOP nominated a ticket of incumbent Benjamin Harrison, who had barely squeaked into the presidency in 1888, and Whitelaw Reid, publisher of the *New York Tribune* and fresh from a three-year stint as minister to France. The party's chief plank was defense of the high McKinley tariff on many imported goods. The tariff, named for the Ohio congressman who would later become president (see story, p. 68), raised prices, and had aroused bitter controversy since its passage in 1890.

Together, these elements gave birth to a unique and long-neglected ancestor of The Forbes Four Hundred: the *New York Tribune's* list of American millionaires (including many estates). Spread over five Sunday editions during May and June of 1892, and then published in pamphlet form, the list was the first and most intensive effort at a census of the republic's wealthiest citizens.

By Maury Klein

State by state, town by town, it compiled a startling total of 4,047 people thought to be worth at least a million dollars.

Raw politics lay behind the list. The *Tribune* had been a diehard Republican paper since the days of Horace Greeley, and Whitelaw Reid was a

longtime party regular. One rival New York paper had already published a list of 122 people who, it claimed, had amassed fortunes ranging from \$5 million to \$125 million—the equivalent today of nearly \$2 billion—thanks to the protective tariff. The Farmer's Alliance charged wildly that no fewer than 31,000 businessmen in the country had become millionaires by "robbery" of the people through the tariff.

This blather outraged not only Reid but also the *Tribune's* financial expert, Roswell G. Horr. The *Tribune's* rich list, probably Horr's brainchild, was designed to refute what he deemed radical fantasies. It was prepared with care, enlisting the help of 1,500 persons in different parts of the country over an 18-month period. Horr did not claim that the list was perfect, but he insisted that it erred on the side of fairness and invited anyone to submit corrections. Few did.

By the *Tribune's* reckoning, only 1,125 of the 4,047 millionaires made their money in fields protected by the "robber tariff"—though this finding did little to help the Republicans in 1892. The Democratic ticket, headed by Grover Cleveland, won the election, just in time to catch the blame for the worst depression to wrack America prior to 1929.

For nearly a century the *Tribune* list has mostly gath-



George Eastman (1854-1932) bought a "photographic outfit" for \$94 at age 23. The unsatisfactory equipment led him to develop transparent film. He helped found the motion picture industry—the movie camera invented by Thomas Edison, his contemporary, required flexible film. Eastman, who never married, became a major philanthropist and disbursed over half his fortune before he died, by his own hand.

red dust. Yet, like the contemporary Forbes Four Hundred and FORBES' annual survey of the world's millionaires, the *Tribune's* survey throws considerable light onto the world that produced the fortunes on display.

Consider, first, what having a million dollars meant in 1892. An average factory worker earned about \$446 annually, a railworker \$563, a miner \$393. Among white-collar workers, a clerk took home about \$885 per year, postal workers \$899, public school teachers only \$270. Flour cost about 14 cents for 5 pounds, steak 12 cents a pound, butter 28 cents a pound. Sugar was a steep 28 cents for 5 pounds, thanks in part to the tariff. There was no income tax to pay. An average family, including servants, could live comfortably for less than \$2,000 a year. In purchasing power terms, a million dollars in 1892 would equate to \$12.9 million in 1988 dollars.

As mapped by the *Tribune*, the na-



Henrietta (Hetty) Green (1834-1916), probably the wealthiest American woman of her day, inherited nearly \$10 million, forged a deceased relative's will in an unsuccessful attempt to get more, then invested shrewdly in real estate, railroads and other stocks and bonds. This legendary miser eventually amassed over \$100 million, easily worth \$1 billion in 1988 dollars.

Joseph Pulitzer (1847-1911) grew up in Budapest and came to America by joining the Union Army in 1864 through a recruiter in Hamburg. At his death, Pulitzer left the St. Louis Post-Dispatch and other newspapers to his family and \$2 million to Columbia University to launch a school of journalism, of which \$500,000 endowed the famed Pulitzer prizes.



tion's private wealth was concentrated east of the Mississippi and north of Washington, D.C. Two-thirds of the millionaires uncovered by the *Tribune* lived in only 5 states: New York (37%), Pennsylvania (9%), Illinois (8%), Massachusetts (7%) and Ohio (5%). Another 14% lived in the next 5 states (California, New Jersey, Michigan, Missouri and Minnesota).

The nation's population, about 66 million, was primarily agrarian, but the private fortunes were centered in the cities, those mushrooming nerve centers of the newly industrial country. Five cities held nearly half of the names; 20 contained two-thirds of them. New York City alone boasted 27% of all the 1892 millionaires. Behind it came Chicago (7%), Boston (5%), Philadelphia (5%) and San Francisco (4%). Flipping forward to The Forbes Four Hundred surveys, in 1988 New York's share of the country's rich has shrunk to 20%, and Los Angeles accounts for 8%. Chicago accounts for 5%, San Francisco for 4%.

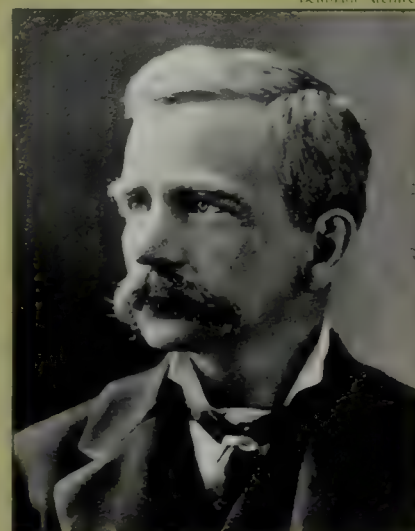
Lord James Bryce, a diplomat and observer of the American scene, wrote in 1888: "Sixty years ago there were no great fortunes in America, few large fortunes, no poverty. Now there is some poverty . . . many large fortunes, and a greater number of gigantic fortunes than in any other country in the world."

In 1892 the variety of ways to exploit the new order was staggering. A scant 2% of the *Tribune* elite got rich

in agriculture, though 65% of the population still lived outside the cities. But wealth from most other fields of endeavor was exploding. Then, as now, media barons in the form of newspaper publishers ornamented the 1892 list. Among them: James Gordon Bennett, Charles A. Dana, Joseph Medill and Joseph Pulitzer. William Randolph Hearst was on the list, but only as an heir to a fortune in mining, banking and real estate. The *Tribune's* Whitelaw Reid did not take a spot on his own list. He was well-fixed, however: His wife was the daughter of banker D.O. Mills, who had no trouble making the grade.

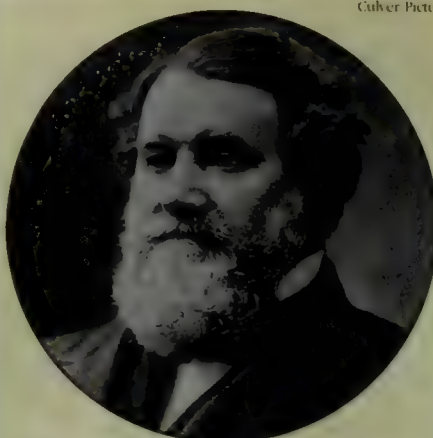
High tech put a few people on the *Tribune* roster, but the term worked at a different level then. The technology that earned

wealth consisted of such things as Alexander Graham Bell's telephone, Elias Howe's sewing machine, Thomas Edison's gadgets, George Westinghouse's air brakes and George East-



Marshall Field (1834-1906), with \$1,000 saved from his job as a store clerk, built up his namesake department store and later used the Chicago fire wisely, buying cheap real estate all over town. He died a broken man two months after his son's suicide, leaving his fortune in trust until his two young grandsons reached 50 (see listings, *Ted and Marshall Field*).

Charles Pillsbury (1842-99) bought a share in a small flour mill in Minneapolis just as new technology was coming to that industry. In 1872 he set up C.A. Pillsbury & Co., and by 1889, when it was sold to a British company, it had three mills with a total capacity of 10,000 barrels a day.

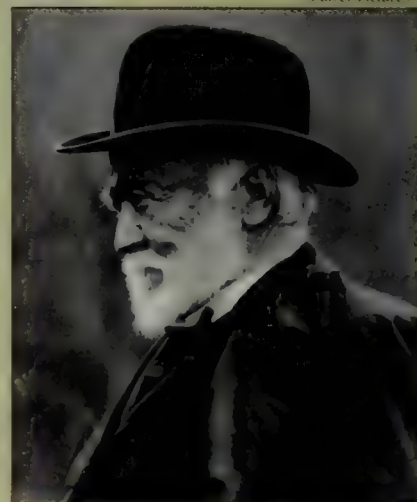


Culver Pictures

Cyrus McCormick (1809-84) was born in a log cabin on a Virginia farm, where he invented the reaper that brought the Industrial Revolution to the farm. The vast prairies being the place for his new machine, he moved to Chicago, where he sold reapers on credit, with a written guarantee on every machine. McCormick's factory was the first to be rebuilt after the Chicago fire.

Andrew Carnegie (1835-1919) first worked in a cotton mill for \$1.20 a week. Later, having built his vast steel fortune, he disbursed \$350 million of it before he died, saying that one who disposes of his fortune in a will "is content to wait until he is dead before he becomes much good in the world."

Culver Pictures



man's cameras.

Oil barons were few in number; the great Spindletop strike of 1901 lay nine years over the horizon. Texas boasted a mere 57 millionaires. But mining yielded a host of fortunes: the Anaconda copper kings, W.A. Clark, Marcus Daly and James Ben Ali Haggin; the silver bonanzas of John W. Mackay and James R. Keene; the coal barons of Pennsylvania (not to mention Mark Hanna in Cleveland); the ore magnates of Minnesota; and Professor Alexander Agassiz of Harvard, who got rich on copper mines near Lake Superior.

One source of wealth has remained constant throughout American history. Since the first developers stepped ashore at Jamestown and Plymouth, Americans have grown rich dealing in land or simply holding it through generations. Real estate accounted for 22% of the fortunes on the 1988 *FORBES* list; on the *Tribune* list, land and real estate figure in about 35% of the fortunes, and surely in many more where the source is called simply

"investments" or is not given.

The beginnings of the mass consumer market appeared in the teeming cities, where a middle class was

emerging and the tide of immigrant labor was rising. Gustavus Swift and Philip D. Armour (meat), Charles Pillsbury (flour) and Claus Spreckels (sugar) fed the swelling population of the cities, while John Wanamaker, Isador Straus, Marshall Field, Eben Jordan and Benjamin Altman (yes, the B. Altman) clothed them in style. Smokers who liked their cigarettes prerolled made James B. Duke a rich man.

The list contains several names that are familiar today. Along with the above, these include Andrew Carnegie, Frederick Weyerhaeuser, John D. and William Rockefeller, the du Ponts.

But what of John Hoey from Hollywood, N.J. or Mrs. Sallie Huffman from Fort Worth, Tex.? Or Tom Johnson, who dominated Cleveland's traction, or streetcar, franchises? After making his fortune, Johnson turned reformer, was elected mayor, and went after franchise exploiters whose methods he knew firsthand. The struggle cost him his health and his fortune. For every Rockefeller there



Culver Pictures

Tom Loftin Johnson (1854-1911) invented the coin fare box, and in time founded a Cleveland trolley company. He later went into politics, serving twice in Congress and four times as Cleveland's mayor. His campaign slogan: "Home rule; three-cent fare; and just taxation."

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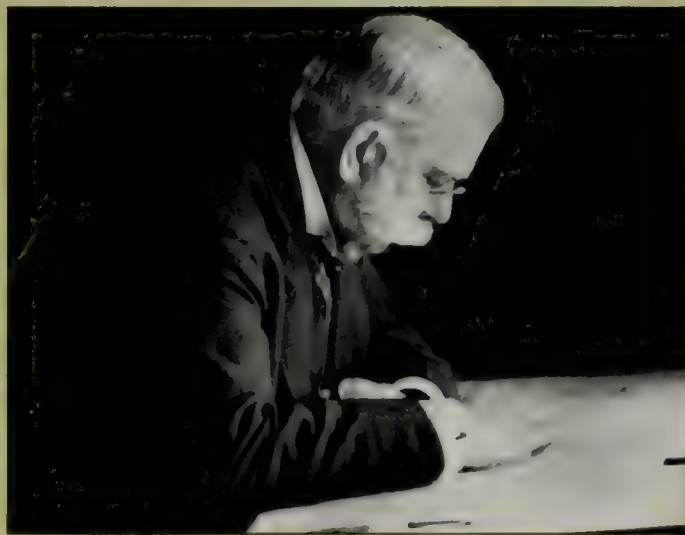
AMERICAS TOWER is a joint venture development of NYL Development Corporation, an Affiliate of The New York Land Company, and K.G. Land New York Corporation. For information call 212-980-4649.

were dozens of 1892 millionaires whose names mean nothing today.

One of the standout facts recorded by the *Tribune* is that nearly a quarter of the 1892 millionaires inherited their money. The figure may be somewhat low, but even so the message is clear that the American economy was fluid, an environment as friendly to making as to inheriting money. Reflecting the mores of the times, this was more true for men than women: about 10% of the *Tribune's* millionaires were women, nearly all of whom inherited their money.

The pattern of inherited wealth in 1892 confirms the adage that the East belonged to those who had already made money, the West to those who were busy making it. In the four eastern states with the most millionaires, some 30% of the fortunes were inherited, at least in part. In California and Texas, by contrast, only 14% of the millionaires listed inher-

George Westinghouse (1846-1914) took out the first of 361 patents at age 19. At 22 he invented the air brake, which had the paradoxical effect of speeding train travel. It allowed the engineer to slow down or stop the train without leaving his car. Westinghouse lost control of his companies following the panic of 1907. But about the same time he helped reorganize the Equitable Life Assurance Society.



Westinghouse Electric Corp.

ed their money (and most of the fortunes were derived from land or real estate). But the *Tribune's* list suggests that a great deal of the country's entrepreneurial activity at the time was

spendthrift heirs or dilution over the course of several generations. This country never has been, and one hopes never will be, cursed by rigid socioeconomic castes. ■

centered in the rapidly industrializing—and currently rejuvenating—Midwest region. In the six leading midwestern states, which accounted for 859 millionaires, only 9% inherited their money. The rest all made it on their own.

In this context it is interesting to look at The Forbes Four Hundred. This year, nearly two-thirds of The Four Hundred accumulated their own fortunes. Of the 51 \$1 billion-plus fortunes on the FORBES list, 24 are self-made.

Conversely, scores of names that have made The Four Hundred list since 1982 do not appear on this year's ranking. Today, as at the turn of the century, large fortunes can easily fall victim to estate taxes, poor business judgment,

James B. Duke (1856-1925) began by peddling a small amount of tobacco overlooked on his family's farm by marauding Union soldiers. By 1889 Duke produced half the cigarettes in the U.S. In 1890 he formed the tobacco trust as the American Tobacco Co., with himself as president, but had to dismantle it in 1911 under antitrust laws. Duke endowed a university and in late middle age had a daughter (see listings, *Doris Duke*).



Culver Pictures



Charles Deere (1838-1907), the fifth child of John Deere, took over his father's tractor company, John Deere & Co., in 1858. Deere greatly expanded his firm's product lines, from 31 in 1866 to 287 in 1900, with everything from plows to bicycles.

John Wanamaker (1838-1922), when he launched his Philadelphia department store in 1877, made his customers an astounding offer, much like Cyrus McCormick's: a full money-back guarantee on all merchandise. The store quickly grew to one of the largest in the nation.

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AEG

Asked 6 Experts:

**“How Will
Technology
Affect
America
in the
Next 10 Years?”**

(Author of *Future Shock*
and *The Third Wave**)



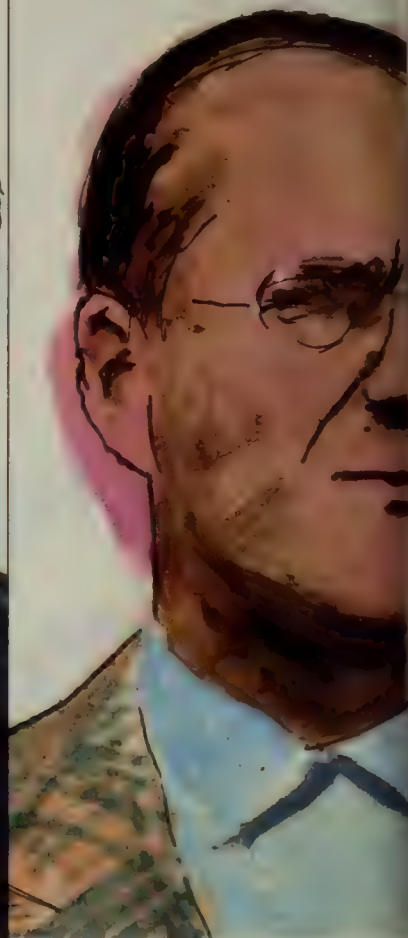
“We are racing toward machine customization on a round-the-clock, continuous basis....[Some industries] are advancing to the point at which the machines can continuously reset themselves, so that the units of output—each one different from the next—stream from the machines in an unbroken flow.”

(Author of *The Death and Life of Great American Cities***)



“ At present public transportation languishes, but not from lack of potential technical improvement. A wealth of ingenious technique lies in limbo. Good transportation and communication are not only among the most difficult things to achieve, they are also basic necessities. ”

(Author of *Ideas About the*)



“The most fundamental and essential U.S. social trend will be continuous growth of knowledge. Spending on...organized R and D will grow from about 2% of U.S. GDP in 1980 to between 4 and 6% by 2100 because men will become more aware of the large social benefits from R and D...”

Who is AEG, and why do we care about the future? You may not realize it, but we've been part of American life since the beginning of the century.

Our Olympia typewriters were introduced here in 1908. AEG Power Tools for contractors and industrial users have been sold here for almost 30 years. The radio in nearly every other American-built car contains AEG components, and the satellite signals to your TV set were probably transmitted by AEG traveling wave tubes.

Thomas Edison helped found the company which became AEG in 1887. Since then, we've become an international, high technology company, 80,000 strong, headquartered in Frankfurt, West Germany.

We are a member of the Daimler-Benz Group, not only for its superior quality Mercedes-Benz automobiles, but also for new technologies in fields ranging from space to communications.

We're interested in the future because our business is in the future. Like Europeans before us, we've come to share the American dream, to participate in its development, to share the American dream, to participate in its development, to share the American dream, to participate in its development.

As the following pages show, we've formed relationships with some of America's most advanced engineering companies. Our intent is to link European expertise with American ingenuity, to help maintain and expand the leadership of U.S. industry in the technological revolution.

**John Diebold
on automation:**

(Author of *Beyond Automation*)



Both office and factory automation have been instrumental in increasing our productivity and national output. In fact...automation, and the concepts it embodies, has become a national resource—a source of strength to the nation and a stimulus to technological change. ”

**Arthur C. Clarke
on the computer age:**

(Co-author of
2001: A Space Odyssey)



“ ...Today's computers are morons compared to those that they themselves are now helping to design....

2001 will not arrive by 2001. Yet—barring accidents—by that date everything depicted in the book and the movie will be in the advanced planning stage. ”

**Charles P. Lecht
on computers and man:**

(Author of
The Waves of Change)



“ ...the computer system...exceeds in importance anything yet invented by man...one of those rare quantum leaps in our evolutionary history that has forced the human mind to transcend its apparent limits simply to keep pace with the product of its own creative ruminations. ”

...ing around the world at an unprecedented pace. It is an exciting age to be in, with new industry and science evolving from the old. Our ventures include everything from “seeds” with enormous potential—like Westinghouse Transportation Systems' Magnetic Transportation trains—to firmly established, high technology companies like MODICON, a key element in the exploding field of industrial automation. In fact, we make high technology products for almost every major industry today, from food processing and steel to aeronautics, health care and automotive companies. The success of our mission depends on how well we anticipate and service the needs of our customers in America

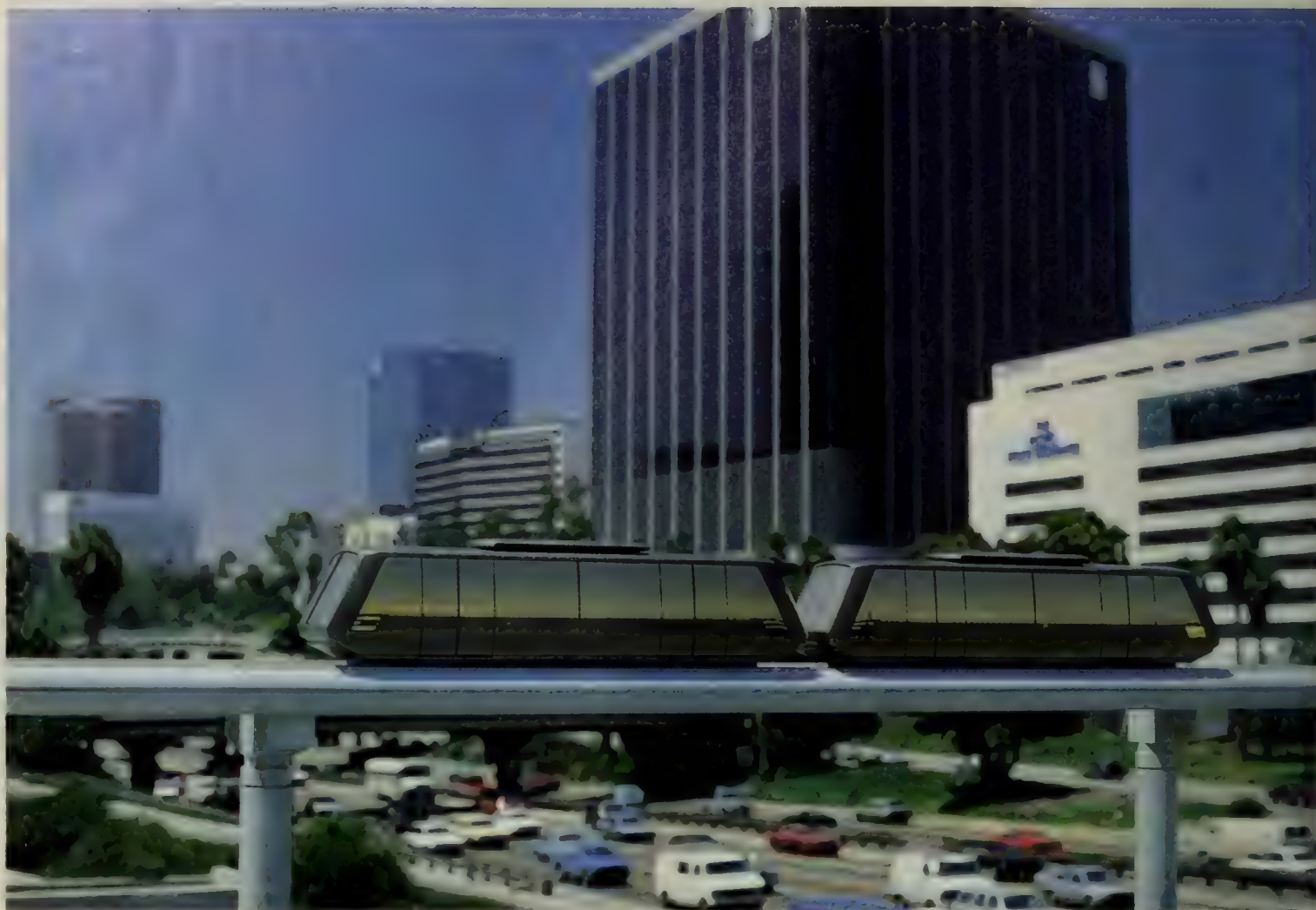
and in the world at large. Their potential is our potential. Their dreams are our dreams.

We need to know the future, to help shape it. We're AEG. **Our business is the future.**

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AEG

The future of city transportation



Photocomposite of magnetic-levitation train against Los Angeles skyline.

“ At present public transportation languishes, but not from lack of potential technical improvement. A wealth of ingenious technique lies in limbo. ”

Jane Jacobs
Author of *The Death and Life of Great American Cities*



It floats, it makes little noise and it leaves behind no pollution. Yet it costs far less to run than any rail transport system in the U.S.

This is the Magnetic Transit System, a futuristic product of the new joint venture launched by AEG, the high-technology company, and Westinghouse, a world

leader in people mover systems and mass transit equipment.

The train is levitated by permanent magnets which keep the vehicles suspended without the need for electrical energy. It is pulled along in almost total silence by electric current embedded in the track.

And since it has a low weight, it doesn't need a heavy, expensive support structure.

The result is clean, safe, energy-saving transportation that can be built for a fraction of the cost of subways or conventional train systems. And it can be built over existing rights-of-way. No need to destroy or disrupt any part of the city it is meant to serve.

The magnetic levitation train sounds like an engineer's fantasy. But one system is running now in West Berlin. Two more have been approved for Frankfurt airport and for Las Vegas, Nevada. Still other projects are under discussion in

major cities across the U.S.

Magnetic levitation is just one more example of innovative technology from AEG, and its future will be the product of combined AEG and Westinghouse experience in building public transit systems. If you'd like to know more, call John Bivens at (213) 556-1511, or write to him at Magnetic Transit of America, Inc., 1925 Century Park East, Suite 1830, Los Angeles, CA 90067, an affiliate of AEG Westinghouse Transportation Systems, 1501 Lebanon Church Road, Pittsburgh, PA 15236-1491. **Our business is the future.**

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AEG

The future office

© 1988 AEG



Prototype design for voice-activated computer.

“Offices...will use more and more new machines. As real wages continue to rise, the use of both new and old machines will become ever more economic.”

Burnham P. Beckwith
Author of Ideas About the Future



The machine in the picture above is not yet at your local office equipment dealer. It is a glimpse into the future, a prototype of a voice-activated computer.

A product of the leading-edge R & D from AEG Olympia, it responds when spoken to and prints what the operator says. Ultimately,

it will have a vocabulary of 20,000 words and require little or no training to use.

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The future of automation technology



Programmable logic controllers are a key element in the automation of automobile production.

“Both office and factory automation have been instrumental in increasing our productivity and national output....[It] has become a national resource...”

John Diebold
Author of *Beyond Automation*



Ten years from now, what American industry will survive without some degree of automation? Materials change, designs and processes change, competition changes. And with it all will come the ever-increasing need for improved productivity.

Yet no matter how fast auto-

mation grows, or how much it changes, an integral function will be modular logic control. The most automated machine or process in the world still needs to be told what to do.

The inventor of programmable logic control, first used in automotive manufacture, was MODICON. In June 1988, MODICON became part of AEG. The result is a synergistic melding of some of automation's finest product design with a world-class leader in systems design.

There is a new generation at MODICON, experienced in automation for a wide range of industries, from automobiles and steel to chemicals and food processing. They are leading the way into new standards of productivity for customers around the world (including the recently-announced paint shop for one of Europe's largest auto makers).

Their capability includes the

MODICON family of Motion Control products: Septor Electronics System 90 Hybrid Network Control, International Cybernetic Controls multi-axis motion control and Gettys motors and drives.

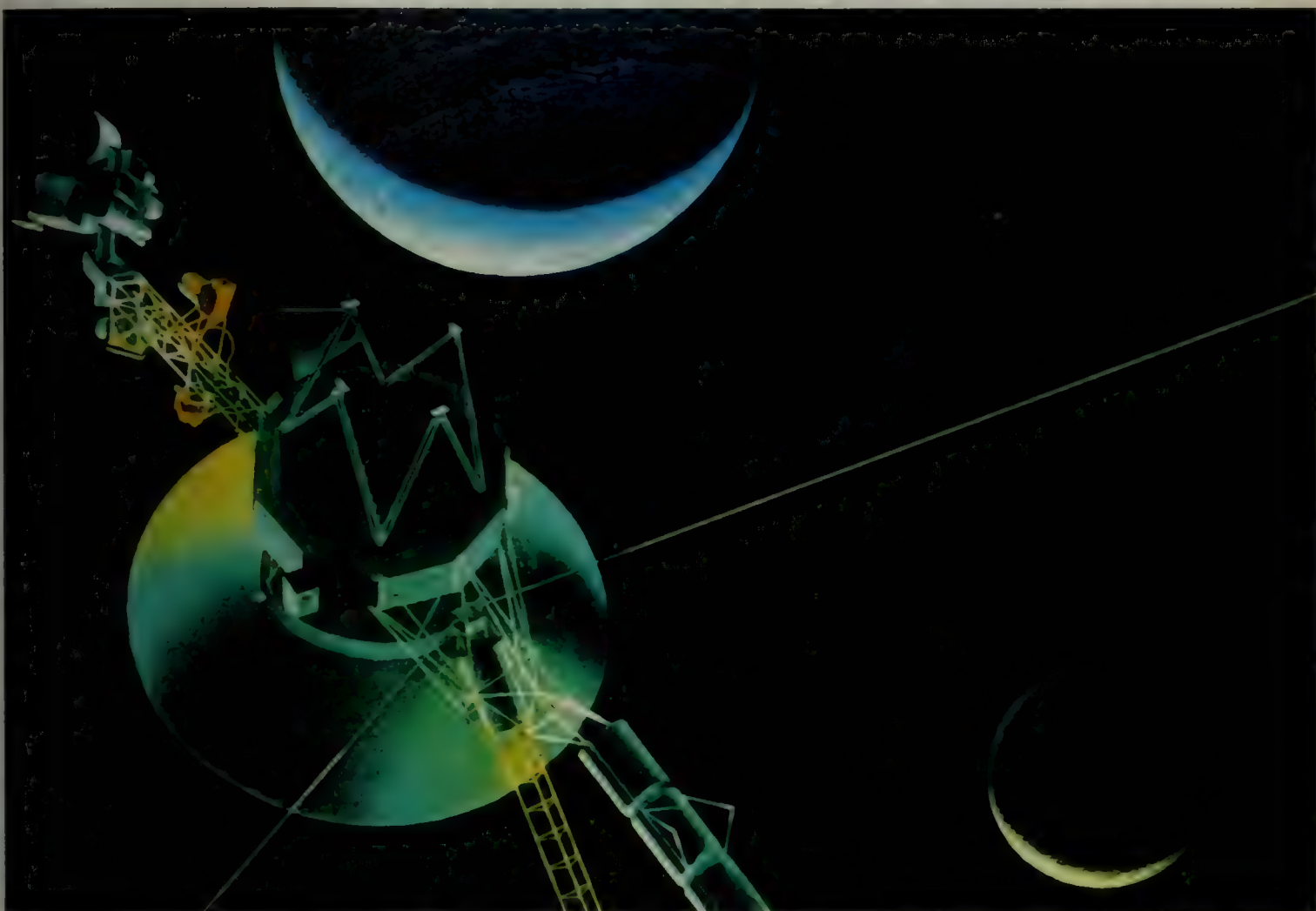
AEG's expertise draws on over 6,000 industry specialists, computer scientists and design engineers. Their success is due not only to product quality but to the quality of service and training built into every contract.

If you want to know more about automation, call MODICON at (508) 975-9047. Or write to Hans Sigvardsson, Vice President Sales, MODICON, One High Street, North Andover, MA 01845. **Our business is the future.**

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MODICON
an AEG company

The future of real-time computing



Space is only one of many applications for real-time computing.

“ 2001 will not arrive by 2001. Yet...by that date almost everything predicted in the...movie will be in the advanced planning stage. ”

Arthur C. Clarke
Coauthor of *2001: A Space Odyssey*



From the outer reaches of the solar system to the factory floor, real-time computing responds to critical external events, as they occur.

MODCOMP, for nearly two decades, has been a leading-edge supplier of real-time computer systems, products and services to the industrial automation, energy,

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MODCOMP
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The future of computer-aided programming



Computer-aided programming is used by the space and avionics industries.

“...the computer system... exceeds in importance anything yet invented by man....What the lever was to the body, the computer is to the mind.”

Charles P. Lecht
Author of *The Waves of Change*



No business can tolerate a 75% reject rate, but according to industry statistics, fully three quarters of custom software development projects are either completed too late to be useful, or result in products that don't do what the user needs to have done.

The crux of the problem is the

explosive growth in complexity. Today's average business-software package takes 32,000 workdays, or three dozen programmers working three years, to complete. Software development at one major company now exceeds \$200 million a year.

Enter computer-aided software engineering (CASE), computer-aided programming (CAP) and Promod, AEG's high-tech software company. In tandem with AEG's expertise in system design, Promod is rapidly becoming an important element in a specialized field that one forecast estimates will hit \$2 billion by 1992.

Some companies, especially in Europe and Japan, have seized upon CASE and CAP, discovering that they can cut development time in half. As the pace of product and process innovation quickens, others must follow, or be lost in the dust of competition.

Promod's customers are real-

izing substantial cost and time savings. Promod's software design tools and training insure high quality software that conforms to user requirements and makes meticulous front-end design so effortless, reject rates and downtime plummet dramatically.

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PROMOD
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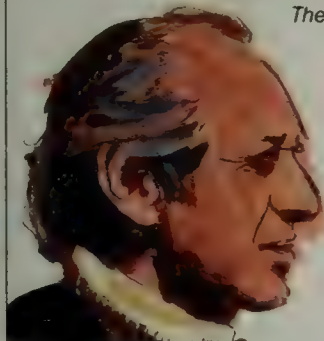
The future of industrial systems



Control panel for automated production, in a steel mill.

“ We are racing toward machine customization on a round-the-clock, continuous basis [with each unit] of output... different from the next. ”

Alvin Toffler
Author of *Future Shock* and
*The Third Wave**



As the demand for quality and standards rises, the tools of production become more and more sophisticated. Products can be made faster with fewer defects, at less cost. They can be more elaborate or more customized. They can be more easily copied and more easily improved upon.

In the markets of the coming decade, competition will be fierce. And being competitive will depend more than ever on efficient, high precision, high quality production facilities.

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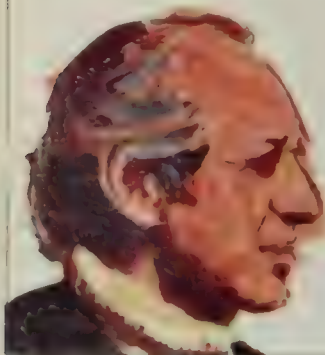
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Alvin Toffler
Author of *Future Shock*



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AEG

Member of the Daimler-Benz Group

Ah, to be young, connected to Mike Milken and converting what once was a luxury good into a commodity for the masses.

How the nouveaux riches got that way

By Edward F. Cone

WHO IS NOT constantly amazed at the fortunes that arise seemingly from nowhere? A decade ago Paul Fireman was running his family's wholesale sporting goods business. Today Fireman, 44, runs Reebok International and owns Reebok stock worth over \$320 million. In 1975 Saul Steinberg was a chubby overachiever licking his wounds from a failed attempt to take over Chemical Bank. Now Steinberg is 49, is worth over \$400 million and

has an energetic third wife who has turned the once-obscure computer lessor into a minor celebrity.

Who are America's young nouveaux riches and how did they get that way? And what, if anything, do their new fortunes say about the economy that spawned them?

The table on page 108 identifies 33 men—no women have come this far, yet. None is over 50, and all save Steve Jobs, Austin Furst and Steven Spielberg are members of The Forbes Four Hundred. (Jobs, Furst and Spielberg are past members and are still

plenty wealthy.) All made their fortunes mostly in the last dozen years, meaning inheritance played a minor role at most. Thus Donald Trump, who turned his father's prosperous real estate business into a fortune in about a decade, is on the list, while the Bass brothers (Sid, Robert, Lee and Edward), who invested their father's fortune wisely, aren't. The Besses' adviser, Richard Rainwater, whose own father was a part-Lebanese, part-Cherokee wholesaler, is on the list.

Following postwar society at large, most of the new rich stem from middle-class backgrounds and a surprising number never graduated from college, although 14 have advanced degrees. Note the regular appearance of Wharton. Of the 33, 4 are on their second marriages, 1 is on his third, and 4 (David Geffen, Bruce McCaw, Paul Allen and Bill Gates) are single.

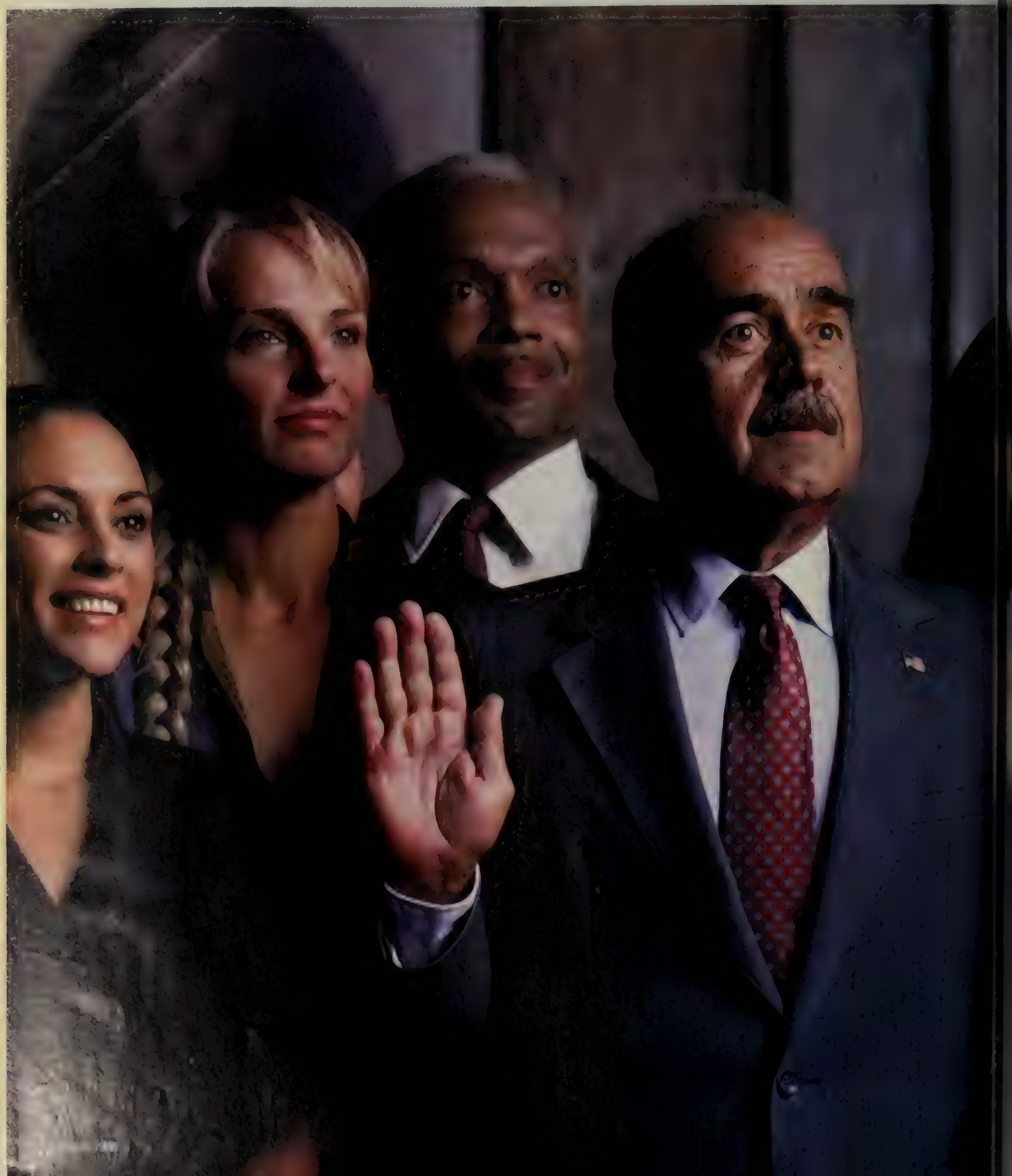
Many of these new fortunes are the result of inflation and of heavy borrowing. More precisely, they have resulted from successfully playing the spread between the rate of asset price inflation and the aftertax costs of borrowing money to buy those assets.

The obvious example is real estate, traditionally a highly leveraged business and the source of eight of the new fortunes on our list. But the favorite tool of the new rich is highly leveraged financial restructurings—

Robert Grossman



FROM SEA TO SHINING IS PART OF THE



BEA, THE WILL TO SUCCEED AMERICAN SPIRIT.



The instant you become an American, whether by birth or by choice, you are guaranteed a particular freedom that is nowhere mentioned in the Constitution, but in fact flows from it.

You are guaranteed the freedom to succeed

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Our deep belief in that idea is one reason that our company—Citicorp and Citibank—has grown to become by far the nation's largest financial services organization.

For over 175 years, our freedom to innovate, to create new financial ideas and services, has led to an unbroken line of initiatives allowing us to help countless millions of individuals.

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And more Americans who once dreamed of "some day" owning their own homes now own them, or are buying them, with a financial helping hand from Citicorp and Citibank.

Meanwhile, here at home and in 90 other countries around the world, we offer the full range of financial services, from new automated machines for personal banking to corporate funding in the billions.

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SUCCEED, NOT JUST SURVIVE.**

Fast money

The men listed below have created fortunes large enough to join The Four Hundred in less time than it takes to age good Scotch. They are grouped by the industries in which they struck gold and listed with the companies they took to success.

Name/company/residence	Age	Degree	Estimated net worth (\$mil)
Finance			
Irwin Jacobs/Minstar/Minneapolis	47	none	\$240
Henry Kravis/Kohlberg Kravis Roberts/NYC	44	MBA/Columbia	330
Michael Milken/Drexel Burnham/Encino, CA	42	MBA/Wharton	800
Ronald Perelman/MacAndrews & Forbes/NYC	45	MBA/Wharton	1,000
Richard Rainwater/Rainwater Inc/Fort Worth	44	MBA/Stanford	225
George Roberts/KKR/San Francisco	45	JD/Hastings	330
Saul Steinberg/Reliance Group/NYC	49	MBA/Wharton	400
Robert Van Kampen/Van Kampen Ent/Chicago	49	BA/Wheaton	240
Real estate			
John Arrillaga/Peery Arrillaga/Palo Alto, CA	50	BA/Stanford	250
Neil Bluhm/JMB Realty/Winnetka, IL	50	JD/Northwestern	400
Christopher Hemmeter/Hemmeter Corp/Kahala Beach, HI	49	BS/Cornell	225
Robert H. Lurie/Equity Group/Chicago	46	MS/Michigan	390
Judd Malkin/JMB Realty/Winnetka, IL	50	BA/Illinois	400
Richard Peery/Peery Arrillaga/Palo Alto, CA	49	MBA/Stanford	250
Donald Trump/Trump Organization/NYC	42	MBA/Wharton	1,000
Sam Zell/Equity Group/Chicago	46	JD/Michigan	390
Entertainment/communications			
Austin Furst/Vestron/New Canaan, CT	45	BS/Lehigh	200
David Geffen/Geffen Co/Malibu, CA	45	none	240
Steven Spielberg/Amblin Entertainment/LA	40	BA/Calif State	225
Ted Turner/Turner Broadcasting/Roswell, GA	49	none	535
Bruce McCaw/McCaw Cellular Comm/Seattle	42	not available	260
Craig McCaw/McCaw Cellular Comm/Seattle	39	BA/Stanford	260
John E McCaw/McCaw Cellular Comm/Seattle	37	not available	260
Keith McCaw/McCaw Cellular Comm/Seattle	35	not available	260
Technology			
Paul Allen/Microsoft/Bellevue, WA	35	none	540
Lawrence Ellison/Oracle/Atherton, CA	44	MBA/Chicago	330
William Gates/Microsoft/Seattle	32	none	1,100
Steven Jobs/Apple Computer/Woodside, CA	33	none	185
Armas Markkula/Apple Computer/Woodside, CA	46	BS/USC	300
Manufacturing			
Paul Fireman/Reebok/Newton, MA	44	none	320
Philip Knight/Nike/Beaverton, OR	50	MBA/Stanford	400
Ralph Lauren/Polo Ralph Lauren/NYC	49	none	450
Richard S. Snyder/General/Dallas	50	MBA/Detroit	230

the reorganization of assets and their ownership as the U.S. economy has replaced heavy manufacturing jobs with high-tech and service jobs.

Confirming the key role of leverage, Drexel Burnham's Michael Milken, now fighting a long list of alleged securities law violations, is at the center of many of the new fortunes. Milken's financial innovations have made it possible for undercapitalized but quick-witted entrepreneurs to take over poorly managed assets, and for the real economic value of those assets to be realized. It is safe to say that Irwin Jacobs, Henry Kravis, Richard Rainwater, George Roberts and Saul Steinberg owe much if not all the money they have mined on Wall Street directly or indirectly to Milken. New York's Ronald Perelman and Seattle's Craig McCaw have also borrowed heavily and productively through Milken.

Nobel laureate economist Milton Friedman provides an interesting overview on the creation of significant private wealth when he says: "Historically, rising income has transformed what one generation thought of as luxury into what the next sees as necessity." Technological innovations have helped. A generation ago, only a large corporation could afford any meaningful amount of computing power. But personal computer and software companies like Apple Computer (Steve Jobs and A.C. Markkula), Microsoft (Bill Gates and Paul Allen) and Oracle (Lawrence Ellison) have turned this former luxury good into a commodity for the masses—and made their founders rich. Likewise Craig McCaw is using cellular telephone technology to make it possible for people of average means to enjoy the kind of mobile communications that only the very rich have hitherto enjoyed.

And what luxury good has trickled down to the masses in greater quantity than leisure time? This has created enormous opportunities for, among others, athletic shoe makers Nike and Reebok and their respective owners, Philip Knight and Paul Fireman.

The ability of the middle class to buy commodities once available only to the aristocracy has helped no one more than Ralph Lauren, whose clothing consciously evokes the lifestyles of an elite aristocracy that has disappeared. Who else but the nouveaux riches themselves would have understood the deep nostalgia for the old money styles that the new money prosperity has created. In that lies a lesson for future entrepreneurs hoping to be new rich someday. ■



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Sophisticated design.



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Was it luck that pushed this man onto The Forbes Four Hundred? Or is it true that the harder one works, the luckier one gets?

A different kind of beer tycoon

By John Anderson

JOHN EDWARD ANDERSON, elfin and spry at 71, picks up the 5-pound, inch-thick, silver Clydesdale horseshoe

that decorates his desk. "Imagine walking down the street with four of those on your feet," he says.

Anderson keeps his Anheuser-Busch souvenir around as a tribute to

good fortune. After all, he owes his own fortune—some \$300 million—to Budweiser beer. And, no, his wife's maiden name is not Busch.

Others have made fortunes in beer: August Busch, the Stroh and Coors families come to mind. But Anderson is the only beer wholesaler among The Forbes Four Hundred. Besides a jumble of beverage distributors, his privately owned Los Angeles-based Topa Equities, Ltd. (sales, \$375 million a year) includes savings and loans and prime real estate in Los Angeles and the Virgin Islands.

Anderson's eight-company beverage distribution group earned \$13 million on sales of \$208 million last year, a heady 6% in a business where margins are normally thin. The secret is volume. Anderson's operations in California, Nevada, Hawaii and the Virgin Islands wholesale everything from Budweiser to Pepsi-Cola to Gallo wines. With a strong brand presence and a hefty 14-million-case-per-year volume, the cash flows.

Take his Ace Beverage Co., a \$60-million-a-year (sales) distributor of Anheuser-Busch and Corona. Ace buys Budweiser at around \$7.50 a case and sells it at \$10. Its territory is a swath of downtown and East Los Angeles. If your grocery store sits in his path and you want Budweiser or Corona, you buy from Anderson.

"Basically you have a certain amount of overhead," he says. "Anything else falls to the bottom line."

Like many another self-made man, Anderson started Topa on a shoestring. A slight man with sandy hair and piercing blue eyes, he recalled his wholesaling infancy for FORBES from atop his \$100 million Century City headquarters. Perched in the corner of his 14th-story office is a telescope Anderson uses to zoom in on friends coming up the front nine of the nearby Los Angeles Country Club.

In 1956 Theo Hamm Brewing Co. had come to Anderson, then practicing law, for help in finding a buyer to take over the company's struggling downtown Los Angeles distributor. A partner in Kindel & Anderson, which he cofounded in 1953, Anderson already represented more than 15 area beverage distributors. He knew



Beer wholesaler John E. Anderson in his Los Angeles office

David Strick/Onyx

"Even with a Harvard business school education, it was hard to screw it up."

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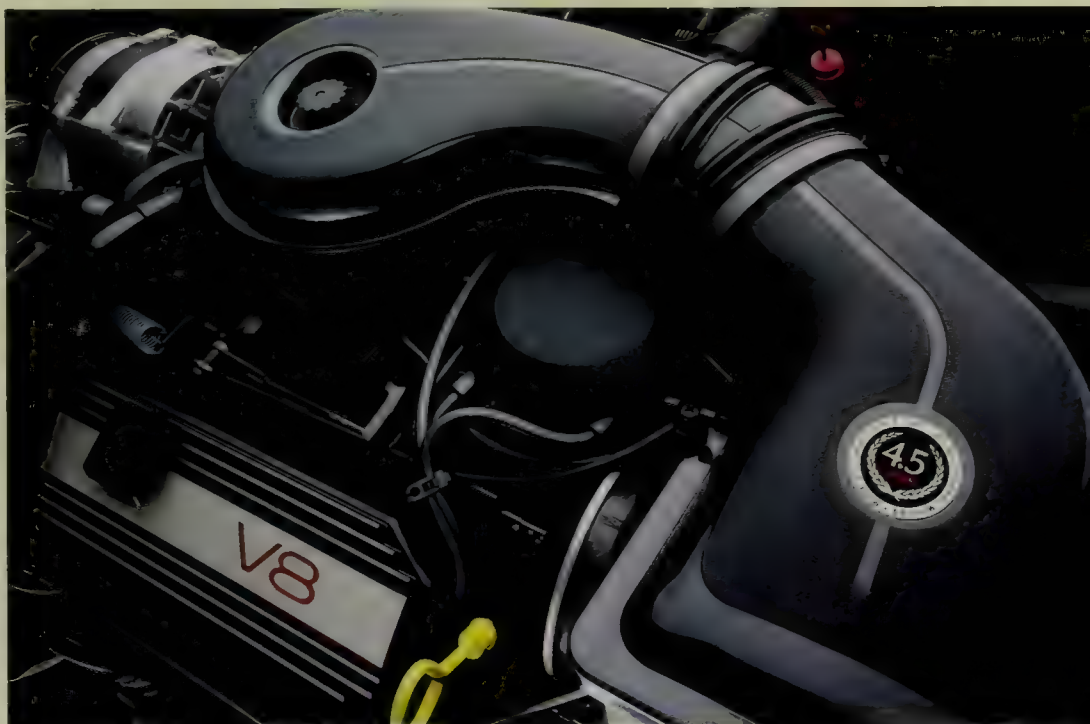
Sedan de Ville

S T Y L E

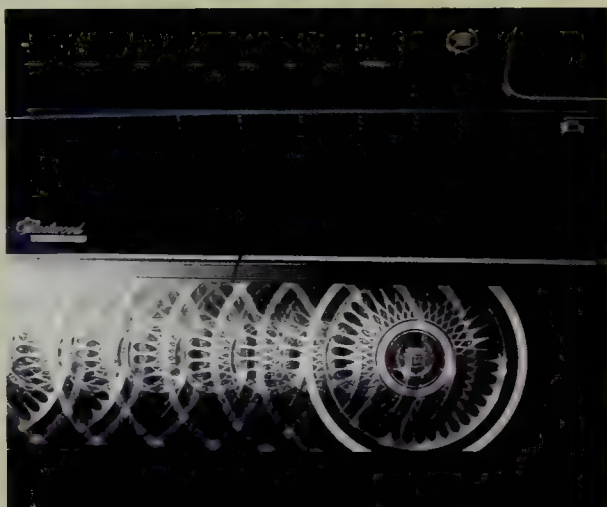


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Beer wholesaler John E. Anderson in his Los Angeles office

David Strick Onyx

"Even with a Harvard business school education, it was hard to screw it up."

the business. He also knew of a buyer for Hamm: himself. "As a typical lawyer," he jokes, "you always think you're smarter than your clients."

With a \$60,000 loan guaranteed by a friend, Anderson took over in April of 1956. "By October I'd lost every nickel," he says. With only Hamm beer to sell and thorny downtown territory in which to sell it, the volume (some 180,000 cases a year) couldn't cover the overhead.

In November Anderson met with Hamm's general manager at a restaurant and dropped the company keys on the table, ready to bail out. "I'm in trouble. My kids are mortgaged and everything," Anderson recalls saying. Hamm told him to hang tough, promising to get Anderson another brand to boost volume. A month or so later, Hamm had one lined up from future industry giant Anheuser-Busch: Budweiser.

"Is that all you can give me?" Anderson asked. "Don't you have anything else?" Budweiser, he explains, "was doing absolutely nothing."

But Anderson agreed to add Bud to his line. He formed Ace Beverage Co. in 1957 and grew as Anheuser-Busch grew from no big deal into the nation's largest brewer. Anderson agrees much of his success owes to having been the right man in the right place with the right beer, and says modestly: "Even with a Harvard business school education, it was hard to screw it up."

But the old line—the harder you work the luckier you get—fits Anderson nicely. Like many of The Forbes Four Hundred, Anderson grew up poor. He was born in Minneapolis in 1917, the son of a Norwegian barber. His passion was ice hockey—the status game in his neighborhood. Anderson still counts two false front teeth and a broken nose, collarbone and rib among his hockey souvenirs.

Always a hard worker and a good student, Anderson left home for UCLA in 1936 with a hockey scholarship and a promise he could "skate in a movie." He did make it to the big screen, as an extra in John Wayne's 1937 sleeper *Idol of the Crowds*. "Saw it three times," Anderson notes.

At UCLA Anderson sandwiched two jobs around hockey practice and school. Before school he kept the books for a local builder. Weeknights found him stripped to the waist tend-

ing an open metal heat-treating oven at North American Aviation. "When I graduated, I knew I sure as hell didn't want to do that again."

He went east in 1940 to Harvard's business school, this time on an academic scholarship. After four years of Navy service (in the midst of which he managed to pass the CPA exam), Anderson returned to Los Angeles and got a law degree from Loyola University. By the time Anderson formed Ace Beverage in 1957 he was 39.

"Most businesses are organized improperly," Anderson says, launching into a pet lecture topic he honed while teaching business and tax law at UCLA and Loyola. "Every business should just have in it working capital, cash and inventory." Anderson's bev-



As a Navy ensign (front, 2nd from right) circa WWII
In his spare time, Anderson passed the CPA exam.

erage distributors lease their equipment, such as trucks and warehouses, from other Topa subsidiaries. Apart from some significant tax advantages, the rather complicated corporate structure also shields other Topa companies from liability in any lawsuits against one Topa entity.

But the world is full of shrewd lawyers, few of whom make The Forbes Four Hundred. Beyond his good fortune at getting the Budweiser rights, the key to Anderson's wealth is his ability to deploy his excess cash flow wisely. Anderson's real estate and banking assets, funded with wholesaling profits, now make up more than half his net worth. Five years ago he paid \$38 million for his 300,000-square-foot office building at the corner of Avenue of the Stars and Santa Monica Boulevard. Anderson has turned down \$100 million for it.

Anderson also hit the real estate jackpot in the Virgin Islands. He

bought out one beverage distributor there in 1980 and another in 1983. Along with the wholesalers came prime real estate in the heart of the main tourist shopping district of the Virgin Islands capital Charlotte Amalie on St. Thomas. Anderson built retail space and watched rents double and triple, to more than \$80 a foot in some areas. "When the cruise ships come in," beams Anderson, "you can't walk down the street."

Realizing the extent of his wealth, last year Anderson made a handsome gift to UCLA, pledging \$15 million to build a new graduate school of management. Oddly, it's a gift he never intended to make. UCLA's Board of Visitors, which Anderson chairs, had targeted California financier David

Murdock for the lead gift. When Murdock declined, Anderson felt he had no choice but to twist his own arm. Three of his kids had earned M.B.A.s at UCLA. Anderson himself taught there for years. After five years of piecing the project together, he concluded that "unless somebody stepped up and made the lead gift, there wouldn't be a school." The John E. Anderson Graduate School of Management is scheduled to break ground in a year or two.

"I do have an ego," Anderson allows, gliding his brown 1971 Mercedes 280SL with TOPA license plates through traffic on the Santa Monica Freeway. His Bel Air mansion, sitting just down the street from the homes of singer Tom

Jones and fellow Forbes Four Hundred members Howard Keck and David Murdock, is his only accommodation to Hollywood glitz. For fun Anderson will hop aboard a truck and heft a few cases of Budweiser.

Indeed, growing up Midwest poor has left its mark on Anderson. On a recent business trip to the Virgin Islands, Anderson found himself with no time for lunch. He settled for a quick stop in a local ice cream parlor. The clerk asked for \$1.85. "For one scoop!" Anderson exclaims. "I said, 'Well, thank you very much, I'll go without lunch.' " He confides: "I still have a little trouble in that area."

As a boy, Anderson dreamed of taking over his father's barber shop. William Anderson would have none of it. He wanted John out of that tough ethnic neighborhood in northeast Minneapolis, Anderson remembers. He pauses, then adds, "I've always been grateful to him." ■

Photo courtesy of John E. Anderson, who informs us that he is not a member of the Forbes Four Hundred, but the subject of his article. Unfortunately,

If you don't take care of your customers, somebody else will.

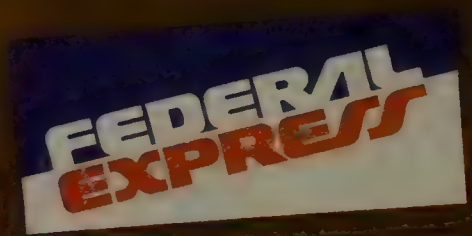
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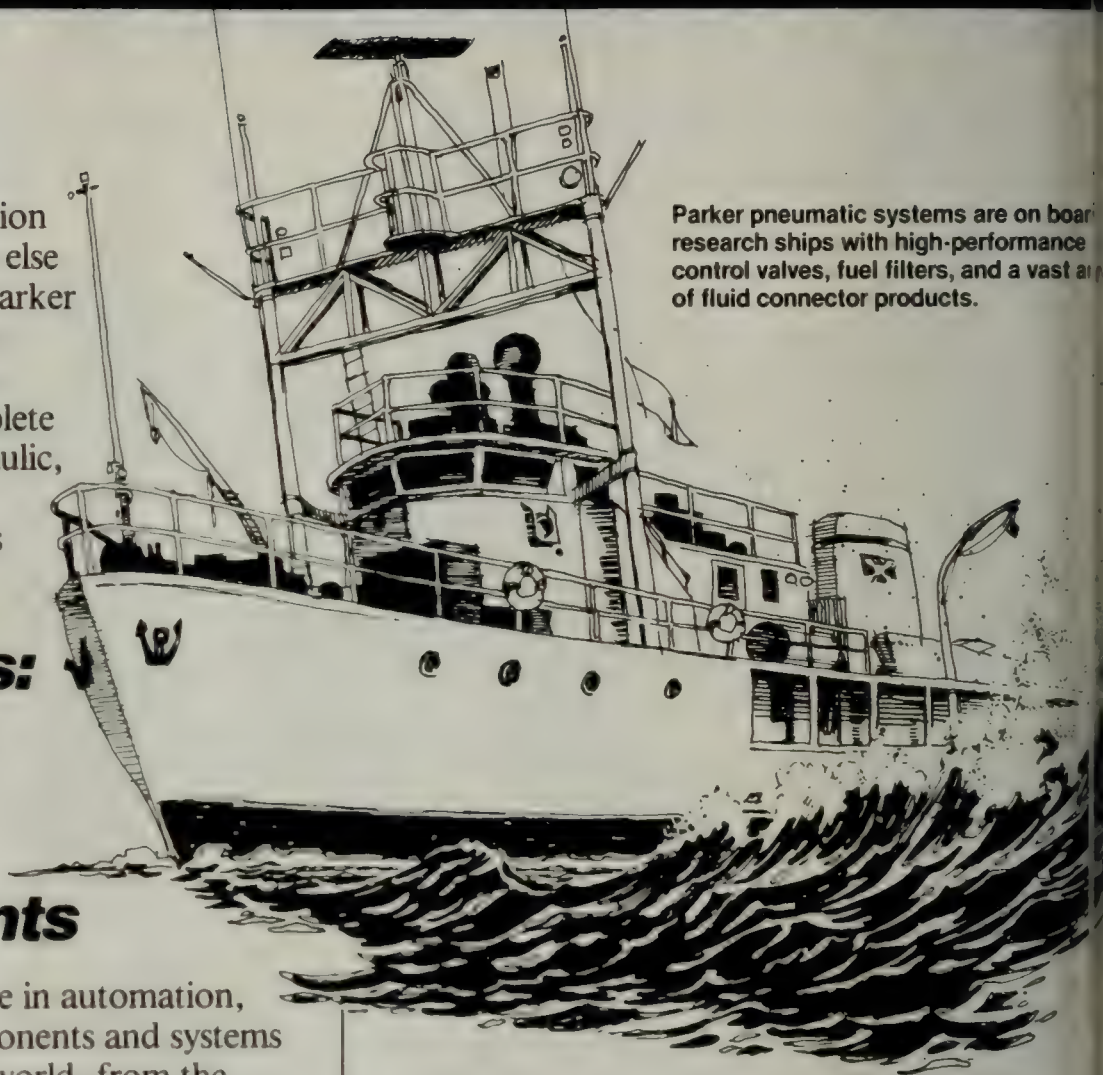
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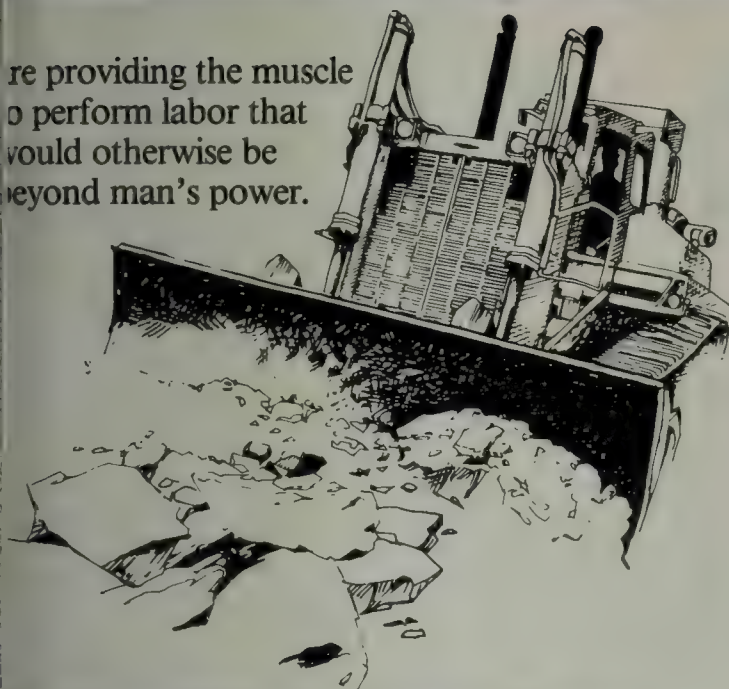
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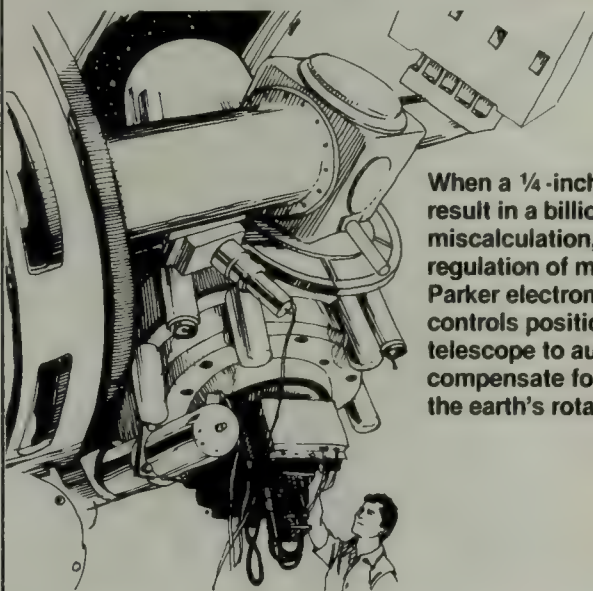
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or motion and control



There are three basic ways a large inheritance can go: up in smoke, way up in value or up just a little. Say this for Seattle's Norton Clapp, heir to a great lumber fortune: He hasn't blown it.

Few chances, few mistakes

By Phyllis Berman

IN DIRECTOR Joseph Mankiewicz' 1954 film *The Barefoot Contessa*, a South American industrialist (played by Marius Goring) informs a party of guests including Humphrey Bogart: "To make \$100 into \$110, this requires work. To make \$100 million into \$110 million, this is inevitable."

Mankiewicz, also the film's screenwriter, didn't know much about wealth in America. As *The Forbes Four Hundred* list consistently shows, new wealth is routinely rising, while old money is constantly eroded by death, divorce and feckless heirs. A \$300 million fortune this year might as easily be \$200 million as \$330 million next year.

But when it comes to the wealth of Norton Clapp, the screenwriter had a point. Clapp is one of those who consciously took few chances with his inheritance, and so made few mistakes. Thus, his fortune has grown modestly, inevitably.

Although little known outside the Seattle-Tacoma area, where he has lived since 1929, Norton Clapp, now 82, is one of the Pacific Northwest's wealthiest men. *FORBES* estimates his wealth at over \$300 million, and that excludes the estimated \$600 million in his family's Laird Norton Trust Co., over which Clapp still exercises

some control.

Thanks to his father's two marriages, Norton Clapp started out extraordinarily rich. The story begins in the late 1800s with the Norton brothers, James and Matthew. They were pioneer timbermen and, with their cousin William Laird, had felled pine along the banks of the Mississippi and built sawmills to supply lumber for homesteaders moving west.

The two Nortons and Laird got in-

involved with another timberman of the era, Frederick Weyerhaeuser, and joined Weyerhaeuser in his numerous enterprises. The Laids and Nortons put up \$1.2 million of the \$5.4 million Weyerhaeuser needed in 1900 to buy 900,000 acres of Washington State timberland and form Weyerhaeuser Co. Eventually the Laird and Norton families owned as much of that company as the Weyerhaeusers. The Laird and Norton partners also put up money for pieces of many of the nearly 200 other companies Frederick Weyerhaeuser helped organize, including what became Boise Payette (now Boise Cascade) and Potlatch Corp.

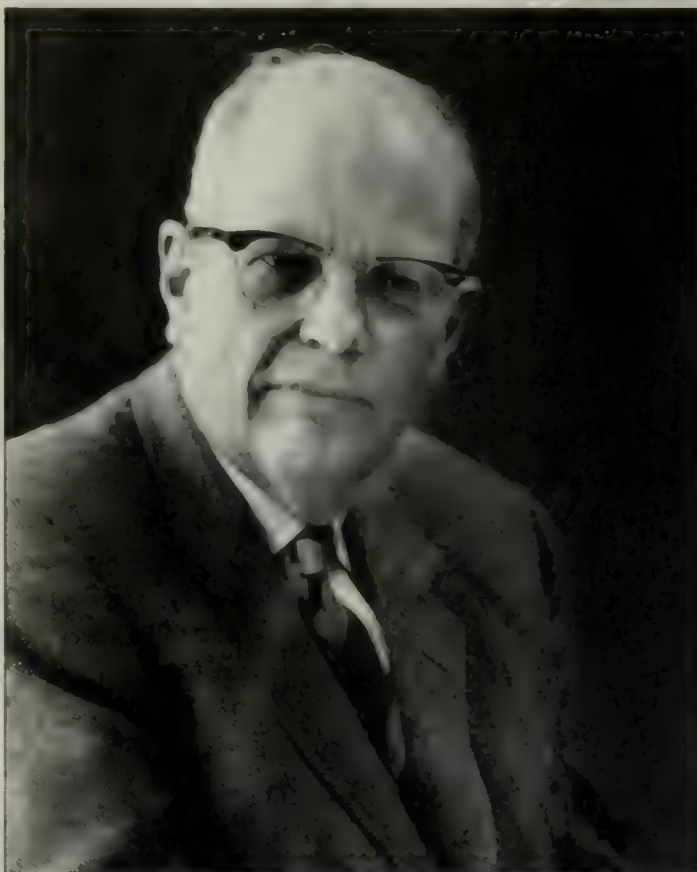
Frederick Weyerhaeuser fathered four sons and three daughters. But not many of Laird's and the Norton brothers' male offspring survived. The families did, however, produce several daughters. Norton Clapp's father, Eben, a physician from Evanston, Ill., married one of the daughters of James Norton. When she died, Eben Clapp married her cousin, Mary, a daughter of Matthew Norton. Norton Clapp was the product of this second marriage. Thus, while most family wealth dissipates over generations, in Clapp's case, wealth was concentrated.

As heir to the inheritances of two Norton daughters, Norton Clapp was destined for the timber business. With a law degree from the University of Chicago, he moved in 1929 to the

Northwest, practiced law in Tacoma and began dabbling in real estate. At the time, he was one of the largest shareholders in Weyerhaeuser, as well as in the Laird Norton Co. back in Winona, Minn.

Clapp was appointed secretary of the Weyerhaeuser company in 1938, and a director in 1947, assuming his late father's board seat. Two years later he became president of Boise Payette.

But it wasn't until 1955, when an elderly Laird and Norton family representative retired, that he became active in the timber business. Shortly before Philip Weyerhaeuser, who was head of the company, died of leukemia in 1956, the Clapps, Laids and Weyerhaeusers conferred and, after long negotiations, decided to let the Weyerhaeuser side run things. But the Laird and Norton interests demanded some say, too. And so Norton Clapp became a vice president of the company



Laird Norton's Norton Clapp

"If you take fewer risks, you miss opportunities."

SAKS FIFTH AVENUE



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and a member of the executive board. He was 49 years old.

Five years later Clapp was named president and ran the company with the help of people like John Aram, who had managed Boise Payette.

While Clapp was president of Weyerhaeuser, his fiscal conservatism set a tone that seems still to guide the company. During the Clapp regime, which lasted until 1966, the company continued its policies of refusing to cut trees as fast as competitors like Georgia-Pacific and of hesitating to assume debt. It financed all of its capital expenditures, some \$545 million during his tenure, entirely from cash flow. Even today Weyerhaeuser has less long-term debt relative to its equity than does Georgia-Pacific and most other big forest products concerns.

Clapp's was a conservative policy, and consciously so. "We are more thorough," Clapp told *FORBES* in 1966, in one of the last interviews he ever granted to the media (except in his role as president of the Boy Scouts). "We take fewer risks, and if you take fewer risks, you miss some opportunities. But our decisions are informed."

When Clapp retired in 1966 the total market value of Weyerhaeuser had increased 25%, to \$1.2 billion. Not a remarkable stock market performance, especially when one recalls that the Dow industrials doubled between 1956 and 1966. The company was sitting on \$3 billion in timber and other assets. At around \$40 per share when Clapp stepped down, the stock traded at less than half its asset value.

Starting before he ran Weyerhaeuser, Clapp suffered several tragedies. In 1945 an auto accident left one son by his first wife dead, another disabled. This son later died of cancer at the age of 24. Another son, said to be a heavy drinker, also died young. In 1951 Clapp's second wife perished in a plane crash.

In 1957 Clapp moved the Laird Norton Co. to Seattle from Winona. He used it as an umbrella for family business interests. Although his sons (one surviving son from his first marriage, two from his second) showed little interest in the business, Clapp turned it into a home for some of the stepsons and sons-in-law that he was acquiring. When stepson Booth Gardner—now governor of Washington—

finished Harvard Business School, Clapp made him president of Laird Norton's midwestern chain of retail lumberyards, now called Lanoga.

The lumberyards weren't efficient: They paid their employees poorly, did little advertising or upgrading of facilities, and so built up cash. The Internal Revenue Service reportedly threatened to put a double tax on retained earnings, and Lanoga used its cash to buy an Alaskan construction business that has turned out badly.

Clapp's real estate ventures have also been very conservative. Northwest Building Corp., Laird Norton's real estate subsidiary, has an estimated \$225 million worth of property, including two downtown Seattle buildings, one of the first suburban shopping centers in the Northwest

from Alaska, where he was a bush pilot. Like his father, Bill Clapp drives an old car, dresses in old clothes and lives quietly on Lake Washington. But there is no indication he wants to take over his father's interests.

The center of gravity of the Clapp-Laird-Norton descendants' wealth is the Laird Norton Trust Co. The trust, which distributed many Weyerhaeuser shares to family members many years back, now manages at least \$800 million in marketable securities (including \$200 million for outsiders). Not unexpectedly, this money is conservatively run.

But now time and taxes are shrinking the pie relative to the number of mouths that expect to be fed. The Laird Norton Trust's beneficiaries have multiplied to some 175 family

members. When many family members gathered in Oregon a couple of summers ago, some voiced discontent. "We're kind of limping along without professional management," said Bootsie Osgood, widow of Gilbert Osgood, who was once a Laird family representative on the Boise Cascade board. Said another trust beneficiary, of the infighting that has begun to afflict the families: "It's a jungle. Those who kept their Weyerhaeuser shares in the trust when they were disbursed still

have something. As for the rest, there's not much."

Norton Clapp's friends and neighbors esteem him greatly—although, curiously, not many want to say so publicly. They like the low profile he keeps—"Around here," explains one longtime Seattle friend, "it is considered good form not to be showy or ostentatious"—and they like his values. "I'm just glad you're writing about someone like Norton Clapp instead of one of those Wall Street hotshots," another Clapp associate says. "He's the kind of guy the youth of America should emulate."

There are three basic things people can do when they inherit great wealth. They can blow it, as the Hunt brothers apparently have. They can expand it exponentially, as the Bass brothers have. Or they can conserve it, as Norton Clapp has done. *The Barefoot Contessa* to the contrary, there is nothing inevitable about turning \$100 million into \$110 million, although in Norton Clapp's case, it seems to have worked that way. ■



Pioneer timbermen James and Matthew Norton
Clapp's father married both of their daughters.

and some raw land in the San Juan Islands north of Seattle. Northwest Building, says a Seattle developer, "is a sleepy operation."

In venture capital, too, caution has been Clapp's watchword. "He put the family money into what I would call country club deals," says a local venture capitalist, who asked not to be identified by name. "But unfortunately, few of those deals were real winners." An exception: the well-regarded Chicago venture capital firm Frontenac (assets, \$200 million), where Laird Norton invested \$2 million in 1970 and remains a limited partner. Frontenac is run by Martin Koldyke, the husband of Patricia Blunt, a Laird family member.

Unfortunately, Koldyke is one of the few younger family members with much business drive. The blood is running thin, and what will happen to Clapp's interests is hard to say. Clapp recently married for the fourth time; his new wife is the widow of one of his sons. Clapp's youngest son William, 46, has returned to Seattle

Weyerhaeuser Company Archives



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At 35, Milton Petrie was bankrupt. In two years he had repaid his creditors in full, and by last year he was a billionaire. His is not the kind of management style they teach at the Harvard business school.

A special case

By Phyllis Berman
and Kathy Murray

AT THE AGE OF 86, Milton Petrie is still surprising people. Three months ago the founder and majority owner of Petrie Stores told FORBES, "We don't intend to take it

[Petrie Stores] private." Then, about a month later, Petrie announced he might buy out the 40% of Petrie Stores he did not already own. The stock, clobbered last October, immediately jumped, adding \$141 million to Petrie's net worth.

Exactly what Milton Petrie does or

does not have in mind for his chain of 1,600 primarily teen apparel shops is anyone's guess. What is amply clear is this: Of humble origins, Milton Petrie wanted to be very rich in a way that only the very driven can. Both he and his father went bankrupt. His father never recovered, but through sheer force of will Petrie has fulfilled his ambition. In last year's bull market, he was worth over \$1 billion. Even with the recent stock move, Petrie Stores has not regained the ground it lost in the market crash. Petrie himself is worth just under \$600 million.

In 1978 Petrie married for the fourth time. Carroll Petrie, from Greenville, S.C., is tall and blonde, a onetime model and big game hunter who is still glamorous at 60. Once an intimate of the Duchess of Windsor, she is the former Marquesa de Portago. The Petries move between sumptuous homes on Fifth Avenue and in Southampton, N.Y., which have graced the pages of *Architectural Digest* and *House & Garden*. ("All this," she reportedly confided to her decorator, "from a Baptist from South Carolina.") On her husband's 85th birthday, she surprised him with a party at the Metropolitan Museum of Art, attended by such luminaries as Happy Rockefeller, the Tisches, Estée Lauder, and Charles Lazarus of Toys "R" Us. Now, since his marriage, Milton Petrie, a large-scale philanthropist, has arrived.

If you're into *Lifestyles of the Rich and Famous* fare, you can stop reading here. If you're interested in how a man who was bankrupt in 1937 was a billionaire by 1987, the story gets more interesting.

By being one of the first specialty retailers to move into suburban malls and by buying up other family-dominated retail chains with cheap, long-term shopping center leases, Petrie has built Petrie Stores into a 1,600-store chain with sales of \$1.2 billion. But over the years the company's management style has remained more in concert with its beginnings as a single hosiery shop in Cleveland.

Organization charts? Detailed chains of command? Forget it. Each morning various employees line up outside the door of Petrie's office in Secaucus, N.J. for instructions and gruff advice. Many are "the girls," as Petrie refers to his store managers.

In his office, Petrie sits behind a simple workman's table (an unused mahogany desk is shoved against the wall, buried beneath a heap of computer printouts) and holds court. He is surrounded by scattered financial reports. A couch nearby overflows with



Milton Petrie at his Fifth Avenue apartment
Former employees use words like "fear" and "chaos."

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Petrie and his wife, Carroll, the former Marquesa de Portago
"All this," she says, "from a Baptist from South Carolina."

stuffed animals. In this dingy back room, with its walls of framed newspaper clippings and a plaque recounting "Lincoln's Failures," he is clearly at home, as he has been for decades.

At his side during these meetings, usually standing, is his chief lieutenant, Hilda Kirschbaum. A lively and sharp-witted 77-year-old, Kirschbaum landed her first job as a stock clerk in Petrie's Cleveland hosiery store at age 16 by sneaking past a line of applicants into Petrie's office. She and three other women—Dorothy Fink, Jean Roberts and the retired Evelyn Schultz—worked for Petrie for almost half a century and built the company alongside him.

What was it like, building such a fortune? Former employees, many of them still loyal to Petrie, use words like "chaos" and "fear" to describe life with Petrie. No detail was too small to catch his attention, be it a store manager's pregnancy, or the mops used to clean the floors.

A former employee recounts a typical meeting: "I remember the day Petrie lost his temper and picked up a file—now you've got to understand it's a 2-inch pack of paper—and throws it at Hilda Kirschbaum. He hits her in the chest, and almost knocks her out of her chair. She gets

angry, picks up the file and throws it at another employee." At the time, Kirschbaum was in her early 70s.

The employee continues: "Hilda apologizes, Petrie apologizes, and they go back to business as if nothing had happened. Meanwhile, Petrie's girls are just diving all over the floor, trying to put the file back together."

Many former employees recall similar mayhem. Petrie says he doesn't recall this particular incident. But using some scatologically vivid language, Petrie concedes that his relationship with Kirschbaum is volatile. "I couldn't repeat the language used in that office," says one former executive. "Just read the roman à clef written about the place." He refers to *The Buyers*, a sex-filled novel set on Seventh Avenue that portrays an entrepreneur's employees treated with an explosive mixture of abuse and generosity. Although author Jack Martin Oppenheim, a former Petrie buyer, begins his book insisting that it's fiction, others say otherwise. "I think I recognized myself," says Kirschbaum. "I read it, and I was angry."

To put it mildly, the atmosphere at Petrie Stores was not gentle. It was not the kind of company to make such lists as *The 100 Best Companies to Work for in America*. But a rough com-

mercial Darwinism weeded out the weaker employees and quickly promoted the stronger ones. The grilling sessions with Petrie required that store managers from small towns around the country be prepped by Hilda Kirschbaum and that the "girls" respond immediately and intelligently to the boss. Those who didn't perform well during their allotted time often got fired. But those who survived could count on Petrie's full support. Many also received Petrie's legendary generosity.

Heavy of hand, Petrie was quick of movement—even though he initially hesitated in refurbishing his stores. "I watched that man sign off on \$5 million like it was pocket change," said an ex-employee. "He'd do a dozen, 15 stores a morning. It was like, 'Here's \$1 million. I want these stores redone.'" A shouted instruction from Petrie would be implemented faster and more efficiently than at any competitor.

The atmosphere exacted a toll from Petrie, too. He is a recovered alcoholic and hasn't touched liquor for ten years now, after an intermittent 40-year battle. When Petrie went off on his not infrequent drinking binges, his four senior "girls," particularly Kirschbaum and Fink, ran the business. Indeed, for years Kirschbaum and Fink have bought virtually all the merchandise for the stores, maintaining a remarkable sense for the teen market. Petrie praises them lavishly, though more with words than cash. Today Kirschbaum and Fink earn \$350,000 and \$325,000 respectively, and for years they earned less than \$100,000 each. By contrast, Petrie pays Jay Galin, a senior vice president, \$800,000. Still, the two women have accumulated, between them, stock now worth \$17.6 million. For his part, Petrie, too, takes a small salary, but he gets huge dividend payments—\$16 million last year alone; even after slashing quarterly dividends from 17½ cents to 5 cents per share in 1987, he will get \$5.6 million.

As Kirschbaum chose merchandise, Petrie looked after locations. At this he excelled. He was an early tenant of mall developers like Richard Jacobs and Alfred Taubman. And when he could get away with it, his treatment of landlords verged on brutality.

Take the time he bought 90 stores along the U.S.-Mexico border. The rents were in dollars, but soon afterward, the peso dropped dramatically, killing the stores' business. Petrie demanded lower rents. The landlords refused. So "Petrie told his controller, 'Don't pay the rents,'" remembers a

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former employee. Most of the landlords caved in.

The question now is, What next for Petrie Stores? In retrospect, Petrie Stores seems to have peaked in 1979. Since then the consolidation of its holding in Toys "R" Us has hidden the decline in its own business (FORBES, Feb. 22). Even then, margins did slide, from 11.6% aftertax to 6.1% in fiscal 1987, and to 3.8% in fiscal 1988 (fiscal years end Jan. 31). Today, with only 13.3% of Toys, Petrie can no longer consolidate those earnings.

Some Wall Street types attribute Petrie Stores' problems to Petrie's refusal, until two years ago, to diversify. Only recently has he begun turning his big spaces, often 12,000 square feet, into different kinds of stores.

Other critics blame Petrie's reluctance to bring in professional managers, share power and create a succession. In 1982 he recruited young Michael Boyle from Federated. Boyle was

Petrie sits behind a simple workman's table and holds court. He is surrounded by scattered financial reports. A couch nearby overflows with stuffed animals. In this dingy back room, with its walls of framed newspaper clippings, he is clearly at home.

gone two months later—"my \$5 million mistake," growls Petrie, referring to Boyle's termination settlement.

In June 1986 another heir apparent arrived: Matthew Miller, now 26, a lawyer and Petrie's grandson. Miller tried to introduce information systems and controls. "Mr. Petrie," as Miller now calls his grandfather, resisted. Miller even went to board member Larry Tisch with some plans. Frustrated, Miller resigned in July.

There are those who believe Petrie is serious about taking the company private. This school believes Petrie will sell the Toys "R" Us block (current value, \$654 million) back to Toys, and use the proceeds to go private—if he can get a favorable tax ruling on the sale of the Toys stock.

An opposing school, however, thinks Petrie is putting his company into play so that he himself can be bought out. This Petrie staunchly denies. "There is no price at which I would sell my stock in Petrie," he says, smoking yet another cigar. "They could offer me double or triple what my stock is worth, I wouldn't sell." The final chapter of this story has yet to be written. ■

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Across the Hudson River from Manhattan lay a wasteland that was the biggest, most obvious building opportunity in America. Some of The Forbes Four Hundred are now turning that opportunity into reality.

New Jersey's new Gold Coast

By John Merwin

ONE DAY IN 1983, Leonard Stern, the billionaire New Jersey developer and owner of Hartz Mountain pet products, received an urgent phone call from his real estate partner, Gene Heller. "Stop what you're doing and come down here—now," said Heller.

"Down here" was an 80-acre tract along the Hudson River, just south of where the Lincoln Tunnel spews its traffic into New Jersey. There Stern and Heller stood on a pier facing the Lower West Side of Manhattan, a half-mile across the Hudson. Turning back to the Jersey side, they scanned a scene of ruin—garbage, abandoned rail yards and rotting wharves. But

Stern was thrilled.

"I imagined," recalls Stern, "that one day both sides of the Hudson would become a single community, as are the banks of the Seine."

Sensing a kill, Stern and Heller snapped up the Hudson River tract for \$5 million, or \$62,500 an acre. Today prime waterfront property in the area is trading for up to \$1 million an acre and more.

Stern's purchase is part of what boosters are promoting as New Jersey's new Gold Coast. The area encompasses 18 miles of scattered but fast-growing commercial and residential development stretching south from the George Washington Bridge past the Statue of Liberty to Bayonne.

The pace of building on the Gold Coast is already hectic. Where once wild dogs roamed, there are now 36,000 condominiums and 35 million square feet of office space—nearly four times the floor space of the World Trade Center twin towers—under various stages of development. There are roads, shops, restaurants. Power, water and telephones. And people, up to 10,000 of them living and working along the Gold Coast waterfront de-



Where the action is



velopment, with many thousands more to come. One day this former garbage landscape could be home to 75,000 residents and 140,000 workers. With the benefit of hindsight, the obvious question is: How could such strategically situated land have escaped the hands of real estate developers for so long? There are two main reasons: railroads, and corruption.

The railroads dominated New Jersey's waterfront from the turn of the century, when they began to build their freight terminals on Jersey's side of the Hudson. From there they unloaded goods, floated them across to New York, then unloaded them again. Not efficient, but cheaper than boring train tunnels under the river. By the mid-1950s, however, truckers, con-

tainerized shippers and highway tunnels drew the railroads' waterfront business away. Eventually the railroads owning much of the Gold Coast—notably the Erie and Pennsylvania railroads—fell into bankruptcy, and the land stayed tied up in legal proceedings until the early 1980s. And corruption? For decades Jersey City, where many of the redevelop-



Development (at right) along New Jersey's side of the Hudson
How could such strategically situated land escape developers for so long?



Port Liberty

From a trash-strewn bayfront to canals and condos.

ment projects are going up, was a political zoo whose animals fed on, or chased away, would-be developers. Recalls former mayor Paul Jordan, elected in 1971 to clean up the mess, "From the mayor down to the building inspector, they all had their hands out." But in the early 1970s, Jersey City's political machine was cleaned out. The mayor and eight other defendants, including political boss John V. Kenny, went to jail.

With political corruption sharply reduced and bankruptcy courts finally releasing railroad land, in the early 1980s developers finally found their opportunity. But because the financial demands of such large-scale redevelopment are so vast—in the aggregate, at least \$20 billion over the next decade—the Jersey waterfront needed private players with uncommonly deep pockets. Besides Leonard Stern, The Forbes Four Hundred members developing the area include New Jersey trucking magnate Arthur Imperatore, New York City high-rise developer Samuel LeFrak, Indianapolis shopping center builders Melvin and Herbert Simon and New York shipping tycoon Daniel Ludwig.

Among the group, the one who bought in earliest and cheapest on the waterfront was Arthur Imperatore. Consider the irony: Imperatore made

his fortune in the very industry—trucking—that killed the railroads' Hudson River freight business. Now he stands to make a fortune on the site where the railroads lost theirs.

Although he is a man with no major development experience, in 1981 Imperatore purchased a long, narrow 367-acre tract of rail yards near the Lincoln Tunnel for \$7.7 million, a mere \$21,000 an acre.

But the price was not low without reason. Imperatore's strip of land, squeezed between the Hudson River in front and New Jersey's Palisades behind, needs state-sponsored light rail service to move masses of people in and out conveniently. Thus far Conrail will not surrender the right of way for its rail operations to New Jersey developers. Why not? Conrail, successor to the bankrupt railroads, uses their old tracks to support a modern container transfer operation a few miles inland. Negotiations are under way to free up the easement so development can proceed.

Also frustrated by the Conrail stalemate is Daniel Ludwig, whose waterfront development, estimated to cost \$800 million when complete in 2001, is several miles south of Imperatore's. But Ludwig can't get started because of Conrail's right to back trains across his land en route to its container

transfer site in the Meadowlands. Nonetheless, both men (or their organizations—Ludwig is 91, Imperatore, 63) are prepared to wait.

The waterfront's most adroit dealmaker has proved to be Leonard Stern. His Hartz Mountain Industries Inc. has already opened part of its own Lincoln Harbor site—PaineWebber is moving 2,500 back-office workers there—and also is leveraging its play by striking deals to develop sites for others, including Imperatore. "Arthur came to realize that he couldn't and wouldn't be his own developer," says Stern. So Stern is going to develop an accessible 80 acres of Imperatore land. Hartz also is developing 13 waterfront acres in Hoboken for two office buildings and retail space with the Stevens Institute of Technology, and is making a pitch to develop Hoboken land now leased by the Port Authority of New York and New Jersey.

To understand better why the Jersey waterfront has fallen mostly into the hands of Leonard Stern and other Forbes Four Hundred types, look just south to Newport, a huge development rising in Jersey City. The capital requirements are enormous. Over the next decade Newport is building 9,000 residential units—mostly high-rise condominiums—4.5 million square feet of office space, and 1.2



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million of retail space. Estimated cost at completion: \$10 billion.

Notice, though, that Newport is actually the vision of a relatively small-scale builder: Herbert Glimcher, a soft-spoken Ohio shopping-center developer. Glimcher says he spotted Newport's land from the air. One day in 1979 he went over in person to check it out.

"It looked like World War III," Glimcher recalls. "There were old warehouses, rail yards, packs of wild dogs running around. Even so, I thought this was the best piece of land God ever made. It had what Manhattan didn't: a view of Manhattan."

In 1980 Glimcher bought his first 120 acres, for \$4 million from the Erie Railroad Co., then followed with smaller purchases. But the ante became too steep for Glimcher. He turned to Melvin and Herbert Simon for help. Later Manufacturers Hanover Bank, the lead lender, insisted that the Simons bring in a major residential developer. It suggested Sam LeFrak, developer of thousands of New York high-rise residential units and possessor of a bankroll considerably larger than even the Simons'.

Today Richard LeFrak, Sam LeFrak's son and president of the LeFrak Organization, boasts that his company has "more than \$100 million of its own money in the project" and will be the leading partner, building most of Newport's projected 26 million square feet. Where does that leave visionary Glimcher? As a partner with only a modest stake remaining in the project, he says, "I'm aware that some of my partners have tried to claim the fame," sounding decidedly chagrined. "But at least I'll know I left my mark, a \$10 billion new city. No one in this country has ever done that."

There are other, smaller players—in the spirit of Glimcher—who have found profitable plays of their own alongside the giants. Most notable among them, perhaps, is a self-taught developer named Michael Sonnenfeldt, who was the first to prove that leading Manhattan companies would ship employees across the Hudson to a place like Jersey City.

Sonnenfeldt's vision dated back to 1973. As office manager of his in-laws' waterfront warehouse, Harborside, directly across the Hudson from Manhattan's World Trade Center, he took lunches sitting on one of the building's piers, pondering the massive building's future. A few years later, he wrote a graduate business thesis on Harborside—once the Pennsylvania Railroad's freight terminal. He later concluded that it could prosper as

an office complex.

In 1982 Sonnenfeldt teamed with an outside investor and bought his in-laws' building for \$25 million. Six months later, they leased 15% of the building to Bankers Trust. Bingo. Harborside, and the entire New Jersey waterfront, had credibility. In 1986 Sonnenfeldt cashed out when a pension fund bought Harborside for \$127 million. For his insight, and no cash investment, Sonnenfeldt earned about \$30 million. There are others like him.

With last fall's stock market shock, rising interest rates and fears of more Wall Street layoffs, there are those who fret that the Jersey waterfront will not live up to its potential or its billing. First Jersey National Bank Chairman Tom Stanton, a longtime lender in the area, has become one of

Where once wild dogs roamed, there are now 36,000 condominiums and 35 million square feet of office space. There are roads, shops, restaurants. And people, up to 10,000 of them, living and working along the Gold Coast waterfront development, with thousands more to come.

the fretters. "Some of the things we would have done three years ago we might not do now," Stanton says. "Oct. 19 has definitely had an effect on the residential market."

But developer Leonard Stern has a different view: "Before our projects are finished, we'll run through two or three business cycles."

What will New Jersey's Gold Coast look like in 20 years? Aside from becoming densely populated, it's hard to answer that question. Unlike other such mammoth developments as southern California's Century City or its Irvine Ranch, each of which is or was controlled by a single development team, the Jersey waterfront is a free-for-all. Stern, the Simons, LeFrak, Imperatore, Ludwig—each developer has his own plans, all requiring approval from a raft of autonomous federal, state and municipal jurisdictions.

If the developers' individual projects grow out to touch one another, it is impossible to say how well they will mesh. But whatever shape these developments take, they will be an immeasurable improvement over the garbage and wild-dog packs that shared the Hudson's west bank before the developers came along. ■

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Prepared by John Anderson,
Dolores A. Lataniotis and Christopher Palmeri
Illustrated by Greg Couch

YES, YOU CAN still make a buck—you can make nearly a billion bucks, for that matter—in the teeth of the October crash. You can even make it in the stock market.

Casualties there were. A total of 22 individuals fell off The Forbes Four Hundred (see "Dropouts," p. 322) because the value of their stock went down. Many others slipped further down the list, but not below our \$225 million minimum.

At the top of the list, Sam Walton and his family saw their Wal-Mart stock drop by \$1.8 billion. The lost value, if it had gone into one person's pocket, would have made him or her the 16th-richest person on our list. Carl Lindner lost his place among our billionaires when his American Financial Corp.'s portfolio slipped postcrash—taciturn Lindner may still be a billionaire, but what's visible of his fortune makes us less certain this year than last that he qualifies for ten digits. At the other end of the list, John Weinberg, a Goldman, Sachs partner, lost his place among The Four Hundred altogether—even an interest in a top-flight Wall Street investment firm isn't worth as much as it used to be.

While some fell, others rose, and still others were discovered. Of the 52 newcomers on the 1988 roster, about a third had dropped off the list in prior years and have resurfaced because their fortunes have grown. At the billionaire level, we've got 7 new names, more than offsetting the 4 who slipped below the billion mark (the Tisch brothers, Milton Petrie and Lindner) as well as the late Sol Goldman.

And for some it was a personal boom year. How could one make it to \$1 billion in 1988? Try being a dealmaker. Ronald Perelman simply sold Technicolor for \$780 million, clearing over \$600 million in profits. Earlier, he took National Health Laboratories public with a market cap of \$1 billion. In all, that's a gain for Perelman of \$700 million in net worth.

Sumner Redstone did him one better. Redstone all but tripled his fortune, adding nearly \$1 billion to his net worth in the takeover of publicly held Viacom. Viacom, of

course, is now carrying his acquisition debt, but the stock market doesn't mind.

It would have been hard not to make money in certain kinds of media companies. No price, it seems, is too high to pay for newspapers or cable tv. Cable tv prices have escalated into the heady realm of \$2,700 per subscription in some cases, adding two more billionaires to our list. Cable mogul Charles Sammons (see box, p. 144) has cable properties that turn out to be worth some \$900 million, as well as insurance interests worth a healthy chunk. And Donald Reynolds' cable business has ensured his place in the top rank this year. On the other hand, quite a few tv stations have lost value as cable and independent stations eat into the ratings of the three big networks (and occasionally into one another's). Oveta Culp Hobby's stations (H & C Communications) are a case in point.

There are lower-profile ways to do well, most of which involve staying away from the stock market. Over a fifth of The Four Hundred arrived through real estate ventures. This year we have 87 property fortunes, 14 more than were on the list in 1987. Shopping malls alone account for 11 of the 87. Malls might seem mundane, but there's nothing dull about the wealth they create. Billionaires Edward DeBartolo and Alfred Taubman are obviously not the only ones who recognized the potential: Meet Murray Goodman and Frank Pasquerilla in our pages.

Donald Trump hasn't done too badly, either. He modestly toted up assets for us that amount to \$3.74 billion, net of all debt. "And that's conservative," he declared. After applying the appropriate discount to a Trump estimate—we threw out Trump's number and started from scratch—we found that while he isn't worth what he says he's worth, he is worth plenty, especially in Atlantic City. Welcome to the billionaire's club, Donald.

A number of ingenious entrepreneurs found unique routes to riches. For instance, are those duty-free shops at airports as profitable as one guesses? No, they are far more profitable than that. Charles Feeney and partner Robert Miller (who gave up his U.S. citizenship, and is not,



therefore, included in The Four Hundred) have made themselves billionaires from their stakes in Duty Free Shoppers (see story, p. 36). And their associate, Anthony Pilaro, an early investor in DFS, hasn't done badly, either (see listings).

Meanwhile, Michigan's Fred Meijer has built up a \$350 million fortune by adding another dimension to the super-market: the European-style hypermarket, or huge shop-

ping mecca. One-fifth of the space in his stores is still reserved for grocery goods. But at a Meijer store you can pick up the material to remodel your home, buy a boat, choose your fall wardrobe—as well as do your weekly food shopping.

Then there's a whole other source of wealth boiling up. Feverish buying in the art markets has added instant millions—in some cases, tens of millions—to any number

New to The Forbes Four Hundred

IF YOU WANTED AN INVITATION to join The Forbes Four Hundred this year, you did best not to rely on public stock or a Wall Street career. With certain exceptions, high-flying financiers and buyout artists were a conspicuously humbler lot postcrash. Only one of the 36 people who appear on this year's Forbes Four Hundred for the first time created his fortune in a publicly traded company, even if some who were already on the list did pretty well in stocks. In this postcrash world, your best bet was a private company, preferably in real estate development.

Fourteen people, nearly 40% of all the new entries, owe their fortunes to real estate. The time-honored inflation hedge has been the single most dependable wealth builder.

The new property barons are a diverse lot. Tom Flatley, an Irish immigrant, lives quietly in a middle-class Boston suburb, taking \$100,000 a year in salary while he builds a diversified real estate empire. Other developers are specialized. Christopher Hemmeter builds superluxury Hawaiian resorts that would impress *Lifestyles of the Rich and Famous'* most jaded cameraman. Seattle tycoon Martin Selig builds nothing but mid- to high-rise office buildings nowadays. While retooling the Seattle skyline, Selig has amassed one-third of all office space in the city's downtown (though slower developers building in his wake will soften Selig's grip a bit when they finish their projects).

The two wealthiest additions to The Forbes Four Hundred are, as noted, billionaires Charles Sammons and Charles Feeney. Sammons, a 90-year-old press-shy Texan who does one newspaper interview every 15 years "for the good of the business," built an insurance, banking and cable tv conglomerate.

Ten new members got their fortunes the old-fashioned way, through inheritance. Nan Tucker McEvoy inherited one-third of San Francisco-based Chronicle Publishing, which owns the *San Francisco Chronicle*,

cable and broadcast properties. Her mother, de Young family matriarch Phyllis de Young Tucker, was the last surviving child of the paper's founder.

Some fortunes don't pass through generations quite as smoothly. After years of fighting that got downright violent, the three Horvitz brothers now find themselves among The Four Hundred. The last piece of their father's media and real estate empire was sold in a court-ordered liquidation this year. In a truly bizarre case, Lillian Goldman, the 66-year-old widow of New York City real estate dealster Sol Goldman (who died a year ago), is battling with her four children for more than a third of her husband's estate.

Two self-made men made the list this year through privately held medical supply companies. William Cook's company, Cook Group, Inc., makes catheters in Indiana. Wallace Coulter's Coulter Counter is the world's most popular blood cell counter. Then there's David Geffen, the music business entrepreneur who built a catalog of mellow folk-rock acts in the late Sixties, then sold his company for a song, built a new one and has had, obviously, tremendous success this year. The 747-on-takeoff sound of rock bands like Whitesnake and Aerosmith have made his independent record company very valuable indeed.

Let's not forget our one new member who made his own fortune through public stock holdings. Mansfield Freeman joined insurance brokerage C.V. Starr & Co. one year after Cornelius Starr founded it in 1919. Freeman sold insurance in China until 1940, then returned to the U.S. He retired in 1960. Since then C.V. Starr & Co. has grown into worldwide giant American International Group. Mansfield Freeman's son, Houghton, votes his father's stock, but the old man still holds on. After patiently waiting it out these 69 years, Freeman, at age 93, has become one of the 400 richest people in America.

All in good time.

Name	Net worth (\$mil)	Page
Charles F. Feeney	\$1,300	164
Charles A. Sammons	1,300	164
Thomas John Flatley	600	193
Wallace Henry Coulter	500	204
Lillian Goldman	400	220
Millicent V. Baoudjakdji	375	181
David Whitmire Hearst Jr.	375	181
William Alfred Cook	350	235
Joseph Alexander Hardy	350	235
Nan Tucker McEvoy	350	232
Frederik G.H. Meijer	350	232
Frank James Pasquerilla	350	234

Name	Net worth (\$mil)	Page
Anthony Martin Pilaro	\$340	235
Ian Woodner	330	243
Austin Edward Guirlinger	325	244
Jean Bernhard Buttner	315	245
John Edward Anderson	300	253
William Robert Berkley	300	245
Theodore Nathan Lerner	300	248
Arlene Smith Kogod	290	258
Charles E. Smith	290	258
Robert H. Smith	290	258
Charles C. Butt	260	264
Harry Richard Horvitz	260	266

Name	Net worth (\$mil)	Page
Leonard C. Horvitz	\$260	266
William D. Horvitz	260	266
George Leon Argyros	250	267
Marvin Maynard Schwan	250	267
Mansfield Freeman	240	229
David Geffen	240	270
Robert D. Van Kampen	240	269
Murray Henry Goodman	230	272
Arthur Edward Imperatore	230	271
Alfred Lerner	230	272
Martin Selig	230	272
Christopher B. Hemmeter	225	273

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of Forbes Four Hundred fortunes: Art collections are a common pastime among the wealthy. Auction prices are becoming, as the kids say, awesome. It wasn't just Van Gogh's *Irises*, the painting that brought in an alltime record \$53.9 million at Sotheby's last November. (A little over three years ago, another high-caliber Van Gogh, *Paysage au Soleil Levant*, sold for less than a fifth that amount—\$9.9 million.) A Degas sculpture that sold

for \$418,000 in 1971, for instance, was recently auctioned off for \$10 million.

There are now people—Richard Manoogian of Masco Corp. is one of them (see p. 398)—who can easily qualify as among the richest people in America on the strength of their art collections alone.

The billions are out there. The ways of getting them are more numerous than ever—and unpredictable. ■

Rules of the Chase

THE FORTUNES OF THE VERY RICH are difficult to calculate. Often it isn't even clear exactly who owns a great fortune. It is frequently parked, at least partly, in the names of the immediate family or concealed in private investment companies. Or, more difficult to find, it is held in trusts, where separate elements of ownership (control of principal, receipt of income, power to name heirs, etc.) are deliberately spread among different people to defend against inheritance tax laws.

To arrive at coherent estimates of wealth, FORBES adopts a number of rules:

- Blocks of publicly traded stock are priced at the market close on Aug. 30. (The summary statistics do not reflect late stock market changes occurring as we went to press.)

- Privately held companies are valued according to estimated revenues and earnings and to prevailing price/earnings ratios for publicly traded companies in similar businesses.

- When earnings aren't known or are suspect, we adopt rule-of-thumb conventions. Newspapers, for instance, can be valued at 2 to 4 times revenues or 12 to 20 times cash flow, less debt. Television and radio stations, cable systems and some newspapers are valued for us by authoritative media brokers.

- Among oil and gas producers we rarely go beyond putting fair valuation on their reserves, to be conservative. Some oil and real estate magnates have substantial assets not in their own names, so in one or two cases we were forced to rely on consensus estimates of knowledgeable peers. These estimates, naturally, are treated cautiously.

- In the matter of trusts and other intrafamily arrangements, we proceed on a case-by-case basis, applying common sense. Most trusts plainly exist to carry out a normal pattern of inheritance (to husbands, wives or offspring) and to minimize inheritance taxes. We look at who controls the wealth. The trusts are generally attributed to the person who created the wealth, if still alive and in control; or, if that person is not alive, to the principal controlling family member or members (and not the family lawyers).

Obversely, spendthrift trusts, which are meant to keep control out of the hands of beneficiaries, are not credited to the beneficiaries; only estimated trust income is counted.

For an example, consider the Getty family. For years

Gordon Getty, as sole trustee of the major family trust, made all investment decisions—such as selling Getty Oil to Texaco—without any other family members. He also controlled distribution of trust income for himself, one brother and nieces and nephews.

The principal was never his to bet at the track or spend on wine, women and song. But otherwise his power was nearly absolute, and he already had more spending money than he could use outside the trust. In a practical sense he differed little from the outright heir who chooses not to spend capital but to responsibly manage a fortune for himself and his family. We attributed the fortune to him then. But now the family is in the courts and he's no longer acting as trustee, by court decree, and so we no longer do so. (He remains on our list, further down, based on estimated personal assets.)

As the Getty trust is broken up, other family members will acquire similar powers over their portions and be included.

Lawyers sometimes say a trust is "owned" by those who ultimately will receive the principal—here, the next generation of the Getty family. But, in fact, the next generation has no power to spend or invest principal or to disburse income to themselves. It is difficult to take such "ownership" seriously—if Gordon Getty had

a child still in diapers, the infant would, according to the lawyers, be counted as one of the richest people in America. A controlling person's powers may be weakened by the limitations of a trust. But every other party's claim to present "ownership" is far weaker still.

Irrevocable charitable trusts and foundations are not counted as personal wealth at all.

Wealth in the names of spouses and other immediate family members is sometimes assigned to the principal family member, especially where ties are close. Where a member's shares are sufficient to entitle him or her to a place among the richest people in America, we generally list him or her separately. A prime exception is the case of Sam Walton, who set up a family holding company for himself and his four children when he started Wal-Mart. Each Walton technically holds a 20% interest, but there can be little doubt who really controls the fortune. So we list one Walton billionaire, the founder, rather than five individuals. This practice is, of course, not followed where family members have gone their separate ways.



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Billionaires

Sam Moore Walton

Wal-Mart Stores. Bentonville, Ark. 70. Married, 4 children. Born in Kingfisher, Okla., worked to help support family during Depression (delivered papers, milked cows). Studied economics at U. of Mo. 1940. Began at J.C. Penney for \$85/month; stateside MP WWII. Opened Ben Franklin store, Newport, Ark., 1945 with money saved in Army; lost lease 5 years later; started over in Bentonville with brother James L. (*which see*). Tried to interest Ben Franklin executives in

Franceur/Gamma-Liaison



Sam Moore Walton

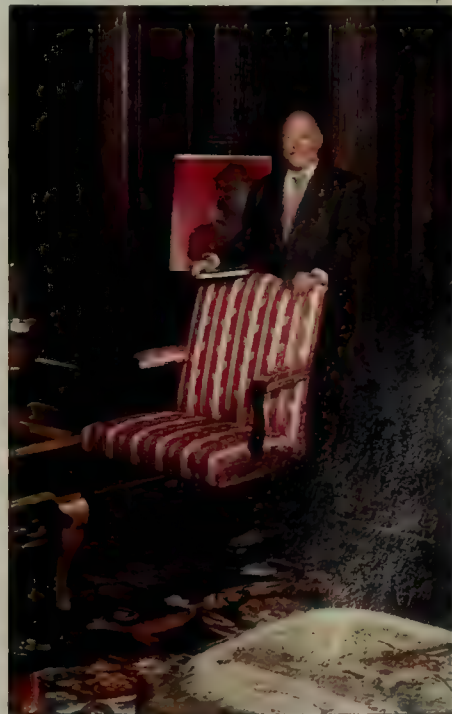
discount store concept: weren't interested. Opened first Wal-Mart in Rogers, Ark. 1962. Went public 1970, expanded enormously. Now 1,200 Wal-Mart stores, \$15.9 billion sales, third-largest retailer in U.S. "Anyone can do what we've done, because I'm not that smart." Sam's work ethic: "TGIM—Thank Goodness It's Monday." No longer CEO, but travels weekly to stores, pilots own small plane; financial incentives, corporate cheers motivate employees. Opened first of three Hypermart USAs 1987; each the size of 5 football fields. His 40% Wal-Mart (with children), banks, etc. worth \$6.7 billion. Detests richest-American tag: "It's just paper—all I own is a pickup truck and a little Wal-Mart stock."

John Werner Kluge

Metromedia Co. Charlottesville, Va., NYC. 75. Twice divorced, remarried; 3 children. German-born (*klug* is German for "clever"), family arrived Detroit 1922. Scholarship to Columbia, got economics degree. After WWII (Army intelligence) bought Maryland radio station. Took control of Metropolitan Broadcasting with partners 1959; parlayed into Metromedia. In celebrated 1984 buyout, liquidation of Metromedia assets (TV and radio stations, billboards, Harlem Globetrotters, cellular telephone, etc.) realized 2.5 times (\$4.65 billion before taxes, debt) what shareholders got. Converted to Catholicism be-

fore marrying magazine model Patricia Rose Gay, 1981. With \$2.5 billion cash hoard, started computerized billboard painting company, hiked Orion Pictures stake to almost 70%, bought 14% Advanced Telecommunications. Bought \$500 million (sales) Ponderosa steak house chain last February: "If things get worse, we've always got a place to eat." Pledged \$100 million to \$1 billion fund for "friendly LBOs" with partners Stuart Subotnick, Jack Perkowski. Still has cellular telephone interests NYC, Phila.; long-distance phone service. Gave \$25 million to Columbia

Robert Phillips



John Werner Kluge

The Forbes Four Hundred

1987. Net worth \$3.2 billion. "There are many opportunities—it's awesome."

Henry Ross Perot

Electronic Data Systems. Dallas. 58. Married; 4 daughters, 1 son. After Naval Academy, IBM sales job,

Brian Smale/Onyx



Henry Ross Perot

founded data processor Electronic Data Systems 1962 with \$1,000 of wife's savings. "My wife still wants to know why everything's in both our names." His EDS stock rose to \$1 billion market value 1968; lost \$600 million in 1969 stock crash. Failed effort to revive 2 Wall Street firms 1970-73: "I was trying to farm when there was no rain." Rescued 2 EDS employees from Iranian prison 1979; big backer hostage rescue operations Lebanon, Iran: "The choice of first resort for covert operations. He got things done quickly, unlike the CIA." Sold EDS to General Motors 1984; his share: \$991 million, plus GM preferred stock. GM bought out "Pesky" Perot for \$700 million 1986. Has \$20 million in Steve Jobs' NExT, Inc. computer firm; owns Petrus Oil & Gas. Day after noncompete agreement with GM expired in 1988 formed EDS-like Perot Systems. First proposal: computerize, streamline U.S. Postal Service; contract derailed by GM and Planning Research Corp. on appeal. Perot: "GM tried to stop it. It's the American way." Real estate, liquid assets, other investments worth about \$3 billion: "Whatever Malcolm says."

Samuel Irving Newhouse Jr.

Donald Edward Newhouse

Brothers. Publishing, cable tv. Father Samuel born to Eastern European immigrants; at 16 ran Bayonne (N.J.) *Times*. Took over ailing *Staten Island Advance* 1922. Fanatic cost-cutter; working out of briefcase, built nation's largest-circulation privately held newspaper chain. Ran business with 3 brothers; 2 sons tagged along on rounds. Legend says wife inspired 1959 purchase of magazine publisher Condé Nast: "She asked for a fashion magazine and I went out and got her *Vogue*." Death in 1979 brought still unsettled estate tax case (IRS wants \$914 million, brothers offer \$47 million). Si: NYC. 60. Divorced, remarried; 3 children. Chairman, supervises magazines (total circ. 30 million, including *New Yorker*, *Gourmet*, *Vanity Fair*, *Parade*), also Random House. Workday starts at 4 a.m. Son Samuel III *Jersey Journal*

Bruce Zake



Samuel Irving Newhouse Jr.

Robert Platzer



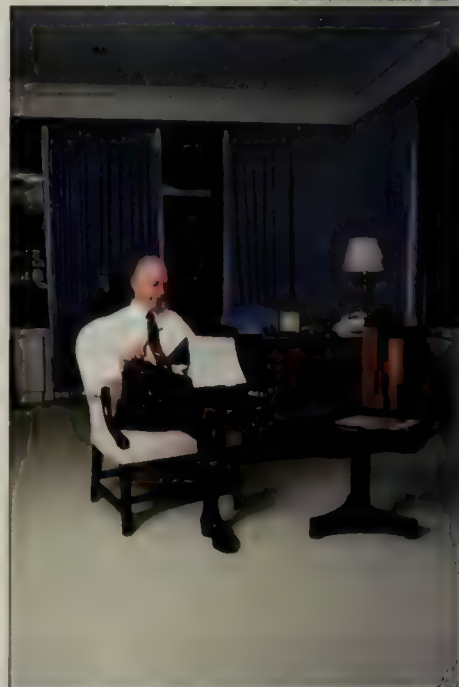
Donald Edward Newhouse

publisher. Donald: NYC. 59. Married, 3 children. *Advance* president, runs 22 newspapers (total circ. over 3 million), including *Newark Star-Ledger*, *Portland Oregonian*, *New Orleans Times-Picayune*; cable tv (over 850,000 subscribers). Son Steven, *Jersey Journal* editor. Brothers low profile. Allowing for potential tax liability, possible debt, share publishing empire still worth estimated \$5.2 billion.

Henry Lea Hillman

Industrialist, venture capitalist. Pittsburgh. 69. Married, 4 children. Cool-headed son of fiery coal-steel-

Lynn Johnson/Black Star



Henry Lea Hillman

gas magnate John Hartwell Hillman Jr., who nipped at Mellon heels, built Pittsburgh Coke & Chemical, Texas Gas Transmission, etc. Henry joined business 1946, took over after father's death 1959. Sold off smokestack assets, diversified into real estate, light industrials; holdings estimated \$300 million 1969. Science/technology follower: invested in Silicon Valley early 1970s via venture capital funds, later on own. Also backed LBO shops, including Kohlberg Kravis Roberts & Co. (*which see*); later pulled off his own: Copeland Corp. Recent investments: Cytel Corp., fledgling Calif. biotechnology firm; 1,400-acre Pacific resort. Director GE, Chemical Bank. Private. Wife Elsie chairs Bush Pa.

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The Forbes Four Hundred

campaign; children not in business. Assets, investments, believed to exceed \$2.5 billion.

Lester Crown

Inheritance, industrialist. Wilmette, Ill. 63. Married; 7 children, 3 in business. Father renowned Chicago financier Henry Crown, 92, built empire on small sand-and-

John Madere



Lester Crown

gravel firm, Material Service Corp., 1919. Merged with General Dynamics 1959 for stock, now 22% stake. Amassed real estate, incl. Empire State Building; sold reluctantly 1961 for estimated \$31 million profit. Brother Irving (d. 1987) "the operating man," Henry "the conceptual man." Mantle passed to Harvard M.B.A. son Lester: "There has to be a yes-or-no person." Irving's son-in-law Charles (Corky) Goodman, 54, acts as right hand. Lester on GD board, high-level security clearance upheld despite 1972 bribery scandal. Real estate partnership with Tishman-Speyer codeveloped nearly 5 million sq. ft. Chicago alone. Son James, 34, also GD board member. With real estate, stock (incl. Chicago Pacific, American Shipbuilding), family interest in New York (baseball) Yankees, Chicago (basketball) Bulls, Lester controls family fortune of at least \$2.3 billion, wants off Forbes Four Hundred. On estimate: "The information cannot come through any reliable source. Unless you have a mole someplace."

Barbara Cox Anthony

Anne Cox Chambers

Sisters. Inheritance. Daughters of James Middleton Cox, country schoolteacher, reporter who bought Ohio's *Dayton Daily News* 1898 for \$26,000; staunch Democratic reformer thrice elected governor of Ohio; failed presidential bid 1920 (FDR running mate). Returned to media, bought *Atlanta Journal & Constitution* 1939; d. 1957. Son James Jr. diversified into broadcasting, cable; antitrust forced spinoff 1964 of Cox Communications; d. 1974. Cox Enterprises now 19 daily newspapers, 9 weeklies, 8 TV stations, 12 radio stations, 1 monthly magazine, 1.45 million cable subscribers, Telerep (top billing TV rep firm), auto auctions, cattle ranches, trucking company, paper mill interest. Owned 98% by his sisters. Anne: Atlanta. 68. Divorced, 3 children. Civic-minded, crack shot, socialite, named ambassador to Belgium by friend Jimmy Carter. "I really am basically a peasant." Bar-

Thomas Lammaccone/WWD



Anne Cox Chambers

bara: Honolulu, 65. Divorced, widowed, remarried; 2 children. Ranches in Hawaii, Texas, Australia. Third husband Garner Anthony, 59, ran company 17 years, completed \$1.3 billion buyout/merger Cox Communications 1985. Son James C. Kennedy, 40, succeeded as chairman 1988. "Let's just say I'm glad we're not in steel." Both women directors on board, Anne chairman of Atlanta newspapers, Barbara chairman Dayton newspapers; jointly, sisters believed worth at least \$4.5 billion.

Jay Arthur Pritzker

Robert Alan Pritzker

Brothers. Financiers. Progenitor Nicholas Pritzker left Kiev for Chicago 1881; formed Pritzker &

Kevin Horan/Picture Group



Jay and Robert Pritzker

Pritzker law firm 1902. 3 sons became partners. Son Abram (A.N.) left to pursue business 1936; became Chicago legend: "I copied the Rothschilds"; d. 1986. A.N.'s sons added vast holdings. Family head, Jay: 66. Married, 4 children. Like father, studied law, then business career. Loves dealmaking but not risk. With brother Donald (d. 1972) built Hyatt Hotel Chain (sales: \$2.33 billion) starting with friend's dare 1957. Now run by Jay's son Thomas, 38, leader of rising generation. Robert: 62. The family engineer. Divorced, remarried; 5 children. Runs some 60 private companies through Marmon group (1987 sales: \$3.24 billion). "When you've got this much money, you've got to do something with it." Recent deals: acquired a 7.2% stake in competitor Ramada Inc., then made bid for rest. Sold 68% of ailing Braniff after 4½-year turnaround attempt. Expanding hotel and resort developments. Fortune easily exceeds \$4.4 billion.

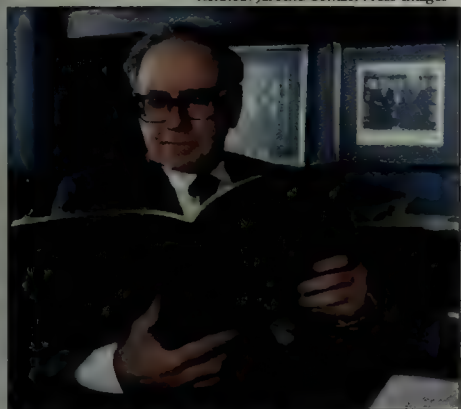
Warren Edward Buffett

Stock market. Omaha. 58. Married, 3 children. Son of stockbroker; "Fireball" bought first books on stock market at age 8; stocks, age 11. Attended Columbia Univ. School of Business; star pupil, disciple of market guru Benjamin Graham; apprenticed at Graham's investment co. 1954. Formed own investment co. 1956; dissolved in 1969 after 30-fold growth, no down

The Forbes Four Hundred

years. Bought Berkshire Hathaway textile mill 1965, diversified profitably (22% compound growth); shut down unprofitable textile co. 1985. Core of B-H called "The Sainted Seven": *Buffalo News*; Nebraska Furniture Mart; See's Candies; Fechter Brothers (a uniform manufacturer-distributor); Campbell-Hausfeld (a diversified mfg. co.); Kirby vacuum cleaners; *World Book*; 1987 sales \$2.3 billion. B-H also has

Kenneth Jarecke/Contact Press Images



Warren Edward Buffett

stake in Capital Cities/ABC, *Washington Post*, Gillette. Likens hunt for acquisitions to "bagging rare and fast-moving elephants." Annual reports known for *bons mots*, popular reading on Wall St. Appeared in ABC soap *Loving* episode as bartender; likes McDonald's, Cherry Coke, bridge; hates parties. His B-H stock, other holdings worth over \$2.2 billion. "It's just not necessary to do extraordinary things to produce extraordinary results."

David Packard

Hewlett-Packard. Los Altos Hills, Calif. 76. Widowed; 1 son, 3 daughters. Stanford scholar-athlete: Phi Beta Kappa, football, basketball, track. Worked in General Electric Co.'s vacuum tube division 1936-38. Founded Hewlett-Packard Co. 1939 in Palo Alto, Calif. garage with \$538 and Stanford buddy William Hewlett (*which see*). Early products: automatic urinal flusher, bowling alley foul-line indicator; wives worked to support them. Invented revolutionary audio oscillator; sold first one to Disney to make ground breaker *Fantasia*. H-P now international manufacturer electronic measurement devices, computer products; over \$8 billion sales (1987). Nixon's Deputy Defense

Doug Menezes/Picture Group



David Packard

Secretary 1969-71, chaired Reagan's Blue Ribbon Commission on Defense Management 1985-86. Very active, generous to children's charities. Packard's remaining 16% of H-P stock worth over \$2 billion. Announced April will give bulk of fortune to David and Lucile Packard Foundation, making it one of nation's wealthiest. "We decided early on this was what we wanted and we worked 25 years to get to the point where we can do it."

Donald Leroy Bren

Real estate. Newport Beach, Calif. 56. Twice divorced, 3 children. Hollywood rich kid: dad was late

John Harding



Donald Leroy Bren

movie producer Milton Bren, stepmother actress Claire Trevor; grew up Beverly Hills. Attended U. of Wash. on skiing scholarship; lost Olympics bid 1956. After Marines, borrowed \$100,000 to build first home 1958; sold his homebuilder Bren Co. to International Paper for \$34 million 1970 (bought it back 1972 for reported \$22 million). Big move 1977: with Al Taubman, Milt Petrie, Max Fisher, Herb Allen (*all of which see*), others, bought Irvine Ranch for \$337 million. Too many cooks in the kitchen: after squabbles with Taubman ("Each of their egos could fill the room"), bought out most partners 1983 for \$518 million; still battling litigious Joan Irvine Smith in Mich. court over buyout price. Bren now owns 64,000 Orange County acres, one-sixth of county. Republican moneybags; attended New Orleans convention 1988. "I want to stay out of the spotlight any way I can." Worth estimated at least \$1.85 billion.

Adolph Alfred Taubman

Real estate. Bloomfield Hills, Mich; 64. Divorced, remarried; 3 children. Father Phil was Detroit custom

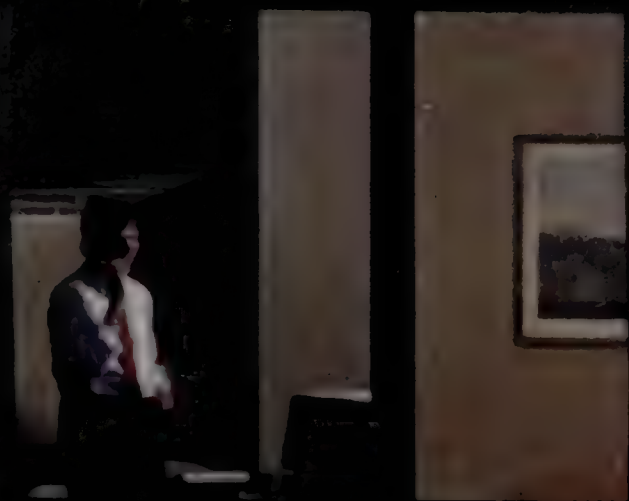
Anthony Savignano/Ron Galella



Adolph Alfred Taubman

home builder. Schoolboy Adolph overcame dyslexia, slight stutter. In 1950, at 25, U. of Mich. dropout started construction firm with \$5,000 loan; built first mall 1953, other strips. Developed large regional malls 1960s; high rents, tough leases: "If they don't like it, they don't have to rent with us." Controls 20 posh regional centers, 24 million sq. ft. Led Irvine ranch buyout 1977; pocketed \$150 mil-

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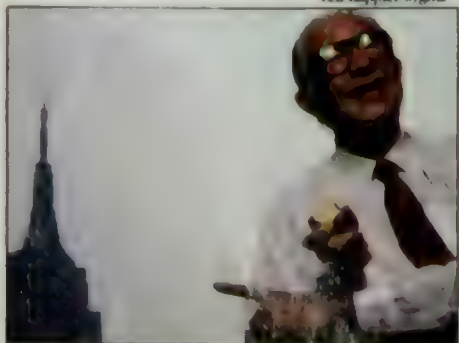
The Forbes Four Hundred

lion when sold 1983. White knight for Sotheby's 1983, took public 1988; "Big Al" pocketed \$47 million, kept 56%. Mid-1980s department store binge: bought Woodward & Lothrop 1984 for \$227 million, Philadelphia's Wanamaker chain for \$174 million, 1986 (both now up for sale). Mortgaged out \$650 million on half of his mall equity 1985. Prowling with cash: aborted run at Pulitzer Publishing 1986. Also owns A&W Restaurants, 5% Macy's, etc. Worth at least \$1.85 billion. Associate: "Really, he's a kind of God-figure."

Harry Brakmann Helmsley

Real estate. NYC and Greenwich, Conn. 78. Divorced, remarried; childless. Son of NYC dry goods salesman; Harry born 1909, raised in the Bronx. Took only college-level real estate courses, others "a waste of time"; at 23, worked as office boy for \$12/week at NYC real estate firm. Paid \$1,000 for first building 1936: "I've always wanted to be the biggest real estate man to come down the pike." Biggest in NYC anyway: Helmsley-Spear, Inc. today controls over 50 million sq. ft. commercial space, 50,000 apts., 13,000 hotel rooms nationwide. Pioneered syndication with Larry Wien (*which see*); owns piece Empire State Building. Harry divorced wife of 33 years, married thrice-divorced Leona (erstwhile Chesterfield cigarette girl) 1972; Leona now "Queen" of Harry's hotels (including NYC Helmsley Palace). Leona: "Every morning I get up and turn to Harry and say, 'Today is a good day because I'm with you.'" Harry: "It was her love of life that appealed to me." Together, the pair was indicted for tax evasion in 1988 for billing personal expenses to hotels; Leona

Ted Kappeler/Sygma



Harry Brakmann Helmsley

indicted separately for extortion. Helmsley lawyers: "They've paid more taxes than practically any other individuals in this country." Harry's estimated real estate equity at least \$1.7 billion.

Marvin Harold Davis

Oil, real estate, entertainment. Beverly Hills, Denver. 63. Married, 5 children. Father Jack, British-born boxer, wove fortune in NYC's garment district; began wildcatting 1940s. Marvin went to NYU, joined dad 1947; "Mr. Wildcatter"

James Smeal/Ron Galella



Marvin Harold Davis

scooped up cheap oil leases in Rockies. Marvin's guru: legendary H.L. Hunt ("Son, the guy that drills the most has the chance of coming up with the most"). Marv came up with \$630 million selling some oil properties to Hiram Walker 1981; bought 20th Century Fox with Marc Rich (*which see*). Bought out Rich, sold Fox in stages to Rupert Murdoch (*which see*); kept prime resorts Pebble Beach Co., Aspen Skiing Co., \$350 million profit. Bought Beverly Hills Hotel from Ivan Boesky for \$135 million 1986; flipped to Sultan of Brunei 1987 for \$200 million. "Marvin will get your last nickel." Bought 2% Lorimar, looked at Dallas (football) Cowboys 1988. Hollywood party animal: "I love this stuff, the people and the glamour." Nourishing his 300 lbs. with imported NYC Carnegie Deli pastrami, cheesecake; building Beverly Hills version with owner Leo Steiner. Sitting on \$1 billion in cash; oil, real estate, etc. make total at least \$1.6 billion.

Robert Muse Bass

Oil, investments. Fort Worth. 40. Married, 2 children. Third son of oilman Perry Richardson Bass, who expanded oil holdings inherited from tycoon uncle Sid Richardson (d. 1951). Perry retired 1968, left family empire to sons. Eldest, Sid (*which see*; also *Lee, Edward*), steered investments out of oil into stocks (Disney, Texaco, etc.), real estate. Robert, feeling overshadowed by brother (both Andover, Yale, Stanford business grads), formed Robert M. Bass Group 1983, moved one floor down in Bass-built Fort Worth office tower. Sold most of Disney stake; shrewd investments since in media (Taft Broadcasting, three cable tv plays), real estate (Westin Hotels, much commercial property), gung-ho on information age (bought Bell & Howell, bid for Macmillan), buying into biggest of all S&L buyouts, American S&L Assoc. of Calif. Avoids press, but rumored political ambitions may change that: joined fight against

Ben Weaver



Robert Muse Bass

unsightly Fort Worth freeway 1984, paid \$2 million for U.S. Grant's Georgetown home 1985. Drives a Volvo, owns a dealership. Own investment gains to date believed to exceed his share of family fortune, total worth at least \$1.6 billion.

Ted Arison

Carnival Cruise Lines. Miami Beach. 64. Divorced, remarried; 2 children by first marriage, 1 adopted in second. Palestine-born son of

A message from John V. Roach

Global competitiveness in an age of technology begins in the classroom...



Chairman of the Board
Chief Executive Officer
Tandy Corporation

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Innovation, quality and competitiveness are at the center of today's debate on America's future. We have the opportunity for a Renaissance in competitiveness in the world marketplace because of the weakness of the dollar, technology advances in production, and greater sensitivity of managers and workers alike in the need for dedication to competitiveness.

A vital element in future competitiveness is the dedication and excellence of students and teachers. The complexities of today's technology requires engineers and scientists with strong foundations and high levels of intellectual curiosity. In order to help meet our country's challenge, we are going to provide additional recognition and a greater incentive to those high school students and teachers who are willing to make the sacrifices today, so we can be more competitive tomorrow in a world where technology is a major driving force.

For students and teachers demonstrating excellence in high school math, computer science and the sciences, Tandy Corporation wants to reward, honor and encourage you to become Tandy Technology Scholars. We know our future and America's competitiveness is dependent on those who attain excellence in rigorous disciplines.

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America needs a renewed dedication to pride in product, pride in quality and pride in country which can only be achieved through a serious commitment to educational excellence.

This school year's performance counts!

The top two percent of students completing their junior year in May of 1989 and recommended teachers of science, math or computer science for the 1988-89 school years at qualifying and participating public and private high schools will be the initial awards recipients. All qualifications, selection criteria and selections will be made by Texas Christian University and its national committee of education leaders. Parents, students and educators should alert your principal to enroll when your school receives the enrollment form in early 1989.

TANDY TECHNOLOGY SCHOLARS

P.O. Box 32897, TCU Station, Fort Worth, Texas 76129

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largest Israeli shipowner. Quit college for British army's Jewish brigade 1942. To New York 1952, lived on \$10 a week. Started short-lived cargo line, then air cargo firm, took public, sold out at 42. Saw potential in mass-market cruise business, but joint venture with Norwegian Caribbean Lines ended in vitriolic lawsuit. With school-mate Meshulam Riklis (*which see*) formed Carnival. In 1972 maiden cruise ran aground with 300 travel agents aboard; bought out Riklis 1974 for \$1. Line profitable ever since. Now world's largest by passenger count with seven "fun" ships—full-scale casino on each—catering to middle America, usually fully booked; Panamanian and Liberian registry avoids U.S. taxes;

General Motors



Ted Arison

son Micky, 39, president. Also operates Nassau casino. Took Carnival public 1987; his and family's 80%, other holdings (NYC's Ensign Bank, Atlanta real estate firm, his share of Miami Heat basketball franchise), worth \$1.6 billion.

Samuel Jayson LeFrak

Real estate. NYC. 70. Married, 4 children. Father Harry came from France 1905; Sam grew up on Brooklyn farm ("cows and everything"). Joined dad's construction co. 1940 after U. of Md.; took over 1948. First major project: 5,000-unit LeFrak City in Queens, N.Y. 1960: "I saved the middle class from having to leave New York." Built quick, cheap, nationwide 1960s-70s (for "the mass, not the class"); now U.S.' largest apt. own-

Michele Singer Outline



Samuel Jayson LeFrak

er with 90,000 units (some 50,000 in N.Y. area). With Mel Simon (*which see*), building Newport project on 400 acres abandoned N.J. rail yards: 9,000 apts., office, retail space ("Like Madison and Columbus avenues without the muggers"). Also entertainment, oil & gas. Revolving business cards: "Dr." LeFrak after awarded honorary law doctorate 1975, then "Sir" LeFrak after Finnish decoration 1980. "Lone Ranger" of NYC real estate, by any title, worth over \$1.5 billion. "I make the rules."

Edward John DeBartolo

Shopping centers. Youngstown, Ohio. 70. Widowed; 1 son, 1 daughter. Began career at 13 preparing



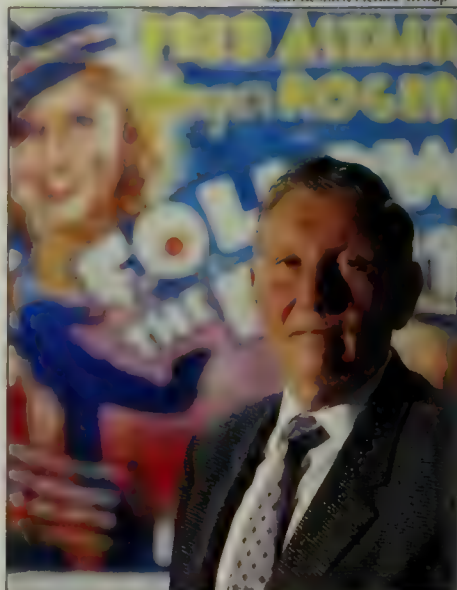
Edward John DeBartolo

bids for Italian-speaking father's contracting business; after high school drove a truck for a year. Notre Dame 1932; Army Corps of Engineers WWII; formed small construction company 1948. Turned to then-risky strip malls 1950s; DeBartolo now "King of Malls": owns/manages 84 million sq. ft. nationwide. M.O.: at least 3 dept. stores per mall, specialty shops, usually one theater, etc. "We don't go for supermarkets. No bowling alleys either. People who go to bowl aren't dressed to shop." Also office bldgs., oil wells, hotels, horse racing tracks; family owns San Francisco (football) 49ers, Pittsburgh (hockey) Penguins. With pal Leslie Wexner (*which see*), bid for Carter Hawley Hale rejected 1986; lost bid for Allied Stores 1986. Backing Canadian Robert Campeau's takeover spree: lent \$150 million for Allied deal, \$480 million for Federated. With Dillard Dept. Stores, bought Higbee Co. 1988. "Mr. D" sleeps 4 hours a night; at work by 6:00 a.m.; works 18-hour days. Worth at least \$1.4 billion. "It's not the money. It's the action. I love it."

Sumner Murray Redstone

Viacom, Inc. Newton Centre, Mass. 65. Married, 2 children. As Harvard student broke Japanese codes during WWII. Practiced law briefly; took over father's drive-in-theater chain, built into 400-screen National Amusements Inc. (est. 1987 sales, \$140 million). As inves-

Seth Resnick Picture Group



Sumner Murray Redstone

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tor, huge gains on Twentieth Century Fox, Columbia Pictures takeovers, MGM-UA Home Entertainment buyback. Badly burned in 1979 Boston hotel fire, survived by clinging to ledge. Taught entertainment law class Boston U. Paid \$3.4 billion for entertainment giant Viacom (Showtime/The Movie Channel, MTV, cable, radio, tv stations) 1987. Took public next day, his 83% worth over \$1 billion: "What did I know about MTV? I only knew I couldn't stand looking at it." Fought John Kluge (*which see*) for control of Orion Pictures, cashed out recently; sold some Viacom cable to trim debt. National Amusements, Viacom, etc. worth over \$1.4 billion.

Forrest Edward Mars Sr.

Forrest Edward Mars Jr.

John Franklyn Mars

Jacqueline Mars Vogel

Candy. Son, 2 grandsons and granddaughter of Frank and Ethel Mars, Seattle candymakers who moved to Minnesota 1920 after two failures, 1914 bankruptcy. Fortune assured with Milky Way recipe 1923. Frank (d. 1934) financed son Forrest's British candy business to keep him distant. Forrest Sr. Las Vegas. 80s (spokesman: "Nobody's got the courage to find out how old he is"). Married; 2 sons, 1 daughter. Built empire abroad, returned 1940 as one-third owner; added M&M's, Uncle Ben's Rice. Bought out half-sister, got full control from rest of family 1964. Mars, Inc. now one of world's largest candy companies, also Kal Kan pet food, much else; sales estimated near \$8 billion, about one-fifth from 37% share U.S. candy market. Secret is quality ingredients ("quality first, then worry about profit"), cheaper wrappers: "They don't eat the package." Supersecretive: known in industry as "Kremlin of candy." Forrest Sr. retired 1973, runs fine-chocolate boutiques Las Vegas. Classic quote: "I pray for Milky Way, I pray for Snickers." Forrest Jr.: McLean, Va. 57. Married, 4 daughters. Secretive like father. Once ran Dutch unit. Now copresident, considered CEO. Pushed new image for candy: gives



Forrest Mars Sr.

energy, not pimples; entered granola bar market. John: Arlington, Va. 54. Married; 1 son, 1 daughter. Called brusque, strong-willed; said to have inherited father's, grandfather's autocratic manners. Began in Australian operation, now copresident. Jacqueline: Bedminster, N.J. 49. Divorced, remarried; 3 children. Director. These siblings said to own one-third each of Mars stock, yet still visibly insecure at mention of father's name; four share control of company worth more than \$5.2 billion.

Edgar Miles Bronfman

Seagram Co. NYC. 59. Married 4 times (twice to current wife); 7 children. Father Samuel ran small hotel in Winnipeg. Switched to the liquor trade and profited greatly from Prohibition. Acquired competitor Joseph E. Seagram & Sons Ltd. 1928. After Sam's death business divided between sons 1971: Charles took Canadian subsidiary; Edgar American, proved more dominant. In tense decision, Edgar Jr., 33, former



Edgar Miles Bronfman

songwriter, theater and film producer, informally chosen to succeed father as CEO over brother Samuel. Edgar: "I was never anxious for my offspring to get into the business. I grew up knowing I had no choice." Philanthropist, heads World Jewish Congress. Family trust dissolved in 1987 allowing "CEMP" heirs to "do their own thing." Edgar's share: some \$520 million. This, plus 16% stake in Seagram, worth some \$1.3 billion.

Leonard Norman Stern

Pet supplies, real estate. NYC. 50. Divorced, remarried; 3 children. Father Max emigrated from Germany 1926 with 2,100 singing canaries; "Mr. Max" founded Harz (not yet Hartz) Mountain selling birds,



Leonard Norman Stern

cages, birdseed. Leonard had NYU M.B.A. at 21; took over Hartz 1959, expanded into dog, cat supplies. Took public 1972, private again 1979; Hartz now dominant pet supplier (estimated sales, \$675 million). Maybe too dominant: anti-trust suits have cost Hartz \$100 million since 1970 (including \$42.5 million to A.H. Robins 1979). Took real estate gamble 1969 with purchase 750 swampy N.J. acres; now 35 million sq. ft. mixed-use space built, worth \$760 million: "People told me I was crazy." Also NYC projects. Bought *Village Voice* 1985 for \$55 million. Launched sister weekly *Seven Days* 1988 ("There's a market uptown just like there's one downtown"). "My work is a smorgasbord of excitement." Should be: net worth at least \$1.3 billion.

Seat belts save lives.

Subaru of America, Inc. 1988



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Charles A. Sammons

Cable tv, insurance. Dallas. 90. Widowed, remarried; 1 daughter. Born Ardmore, Okla. 1898. After parents died, raised by aunt, moved to Plano, Tex. 1918 to become hay, grain merchant. He and friends founded Postal Indemnity Co. in Waco, then formed Reserve Life Insurance Co. Dallas 1938 with \$26,000. Acquired other life cos.; entered into cable tv early 1960s: "Cable is somewhat like Alice in Wonderland. You have to run just to keep up." Today privately held Sammons Enterprises, Inc. nation's 15th-largest cable operator with about 847,000 subscribers; also owns 11 life insurance cos. (\$1.1 billion assets), hotels, bottled water cos., etc. 1987 sales, \$1.3 billion. Charles press-shy, rarely photographed; runs show from Dallas high-rise apartment: "Our bankers are our audience." Does one local press story every 15 years for "the good of the business." Charles' and family's 90% Sammons Enterprises worth at least \$1.3 billion. "I have an angel on my shoulder."

Ray Lee Hunt

Inheritance, oil. Dallas. 45. Married, 5 children. Only male in "second family" of oil baron, bigamist H.L. Hunt, who married Ruth Ray, adopted her four kids 1957 two years after first wife's death. Kept families secret from one another (see Hunt family, Margaret Hill, Caroline Hunt). Ray, with mother, 3 sisters, inherited then-ailing Hunt Oil Co. 1974. "The smartest Hunt" revived company, expanded overseas, diversified into real estate; huge North Yemen strike 1984. "You minimize risk by doing as much



Ray Lee Hunt

homework as possible, then every once in a while you stumble across something that makes you go boom." Inherited little real estate; his Woodbine Development now controls 1.8 million sq. ft. office space, 2,840 hotel rooms, 3,000 acres industrial, residential, raw land. Includes Dallas landmark Reunion Tower, Fort Worth's Continental Plaza, others. No connection with half-brothers' bankruptcy. Controls fortune, much in trusts, worth over \$1.3 billion.

Charles F. Feeney

Duty Free Shoppers and General Atlantic Corp. London. 57. Married to French woman, 5 children. Founded Duty Free Shoppers in Hong Kong 1960 with classmate at Cornell School of Hotel Administration, built into world's largest duty-free retailer (see story, p. 36). Credited with great insight into Japanese consumers, DFS's main customers. Also, insight into tour guides: lavish with commissions for guiding to his stores. Left day-to-day management in early 1970s to concentrate on investments of enormous cash flow through Bermuda-based General Atlantic holding company: resort hotels in



Charles F. Feeney

Guam and Saipan; shopping center in Tahiti; wristwatch chain in Taiwan; 3 clothing retail chains in Hawaii; discount clothing chain in Texas; reportedly, audio retail chain in Southeast, posh cashmere store in London, magazines in England. Described by friends as high-strung, fast-talking, fast-thinking, frugal: "He never stops." Flies economy class, owns at least 8 houses Europe, U.S., Bermuda. "He's really most content at 36,000 feet." His 40% stake in DFS, other assets, worth over \$1.3 billion.

John Thompson Dorrance Jr.

Inheritance. Gladwyne, Pa. 69. Divorced, widowed, remarried; 3 children by first wife, 4 stepchildren. Father John Sr., brilliant chemist, turned down professorship for \$7.50-a-week job at uncle's Campbell Preserve Co. 1899. Wanted to try nutty idea: selling condensed soup in cans. Became president Campbell Soup Co. 1914. Proved master salesman: "We were the

Benno Friedman



John Thompson Dorrance Jr.

original advertiser in many ways." Left \$129 million estate 1930 to 5 children (4 daughters now dead, see nieces, Dorrance Hamilton, Hope van Buren). One-third to John Jr., who joined co. as hourly factory hand 1946; chairman 1962. Oversaw expansion: Swanson, Pepperidge Farm brands. Open-heart surgery 1981; retired 1984. Son J.T. III, Wyoming rancher, on board. John Jr.'s 31% Campbell's good for \$93,000 in dividends per day. Family trusts, other investments worth over \$1.2 billion.

Walter Hubert Annenberg

Publishing. Wynnewood, Pa.; Rancho Mirage, Calif. 80. Divorced, remarried; 1 daughter (1 son deceased). Son of Moses Annenberg, colorful founder predecessor Triangle Publications (*Philadelphia Inquirer*, *Daily Racing Form*), jailed for tax evasion, died 1942. Callow Walter inherited debt-ridden firm age 32. Started *TV Guide* 1953, now largest circ. magazine in U.S. Also *Seventeen*, *Good Food*. Sold *Inquirer* 1970 to Knight-Ridder citing lack of heir. Ex-ambassador to Court of

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Walter Hubert Annenberg

St. James's. Sale of Triangle to Rupert Murdoch for \$3.2 billion a stunner (Triangle generally valued at \$1 billion to \$1.5 billion by analysts). Believed nearly \$1 billion will go to philanthropies. With other assets, Walter's fortune should be at least \$1.2 billion.

Margaret Hunt Hill

Inheritance, oil. Dallas. 73. Married, 3 children. Eldest child of legendary wildcatter H.L. Hunt (see *Hunt brothers, Caroline Hunt*) who taught her oil business. Controls trust for brother Hassie (mentally incapacitated, childless). Publicity-shy, strong-minded Margaret dominated family meetings: "She seemed dedicated to reminding the family that they were Hunts and should act accordingly." Wisely separated holdings in 1983—as did sister Caroline—from brothers' silver-related bankruptcy, bought land from "the boys" at recent bank auction. Son Al unsuccessful independent movie producer. With vast raw land holdings in Dallas area, apparent major Dutch North Sea

Andrew A. Hanson



Margaret Hunt Hill

oil stake, fortune (including Hassie's share) believed worth some \$1.2 billion.

Keith Rupert Murdoch

The News Corp. Ltd. Australia, London, NYC. 57. Divorced, remarried; 4 children. Graduated Oxford, 1952. Trained on Fleet Street. At 23, after death of father, managing director of Melbourne *Herald*, took over *Adelaide News* and developed trademark sensationalist headlines. Diversified into magazines, tv; also into U.S., U.K.: *Boston Herald*, *New York* magazine, *Elle*, Twentieth Century Fox, Metromedia tv stations. Trying to build fourth U.S. national network through Fox Broadcasting (expected to lose \$80 million this year). Naturalized 1985. Recently forced to sell *New*

David Burnett/Contact Press Images



Keith Rupert Murdoch

York Post by FCC regulations legislated by longtime nemesis Teddy Kennedy: "Liberal totalitarianism," accused Murdoch. This year acquired 20.4% interest in publisher of *Financial Times* of London. Buying Walter Annenberg's (*which see*) Triangle Publications (*TV Guide, Seventeen*, etc.) for \$3.2 billion. News Corp. 1988 projected cash flow: \$875 million; debt: \$5.6 billion, pre-Triangle. Murdoch's 46% interest, other assets, worth about \$1.2 billion.

Philip Frederick Anschutz

Oil, investments. Denver. 48. Married, 3 children. Grandfather owned Russell, Kans. bank; father Fred ace wildcatter 1930s-40s ("He had the

AP/Wide World



Philip Frederick Anschutz

magic touch"). After U. of Kans. B-school, Phil bought out Dad; expanded, snapped up oil & gas leases in rich Overthrust Belt area. Struck pay dirt with Anschutz East Ranch field Utah, Wyo. late 1970s; at market peak, sold half interest to Mobil for \$500 million 1982. Now wide ranging, closely guarded assets: cash, oil & gas reserves, minerals (uranium, coal, tungsten), real estate (Denver Hyatt Regency, Anaconda Tower). Bought Rio Grande Railroad 1984 for \$500 million; revenues plummeting since, down some 25%. Failed run at Western Union 1986; \$1 billion bid for Southern Pacific approved by ICC 1988. Western art, history buff; chews (rarely smokes) cigars. Squash nut, marathoner. "I don't mix business with anything. I don't do business dinners. I don't do business tennis. And I don't do business squash." Despite oil weakness, should still be worth at least \$1.1 billion. "If I'm known for anything, it's for keeping a low profile."

August Anheuser Busch Jr.

Anheuser-Busch. St. Louis. 89. Widowed, twice divorced, remarried; 10 children. German immigrant grandfather Adolphus Busch married Lilly Anheuser 1861, sold brewery supply business, joined father-in-law's brewery 1866. Called Anheuser-Busch 1876; brewed Budweiser. Survived Prohibition. Depression making soft drinks, corn syrup. August Jr. joined 1922, cleaned beer tanks. President 1946, rapidly expanded Anheuser-Busch from sagging fourth place among U.S. brewers back to first: "Being second isn't worth anything."

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Photographic Resources

J.P. Laffont/Sigma



August Anheuser Busch Jr.

Bought St. Louis (baseball) Cardinals 1953. Won World Series 1964, 1967, 1982. August Jr., "King of Beers," rode atop beer wagon drawn by Clydesdales at Busch Stadium. Son August III, 51, now runs co. Samples beers daily for proper mixtures of barley malt, hops, yeast, etc.; stays sober. Workaholic, pursues vigorous, imaginative marketing to beat competition. So dad's stock worth over \$1.1 billion.

Charles de Ganahl Koch

David Hamilton Koch

Brothers. Oil services. Sons of Fred Koch, cofounder Koch Engineering Co. 1925. Invented thermal cracking refining process to squeeze ex-

Larry Heming



Charles de Ganahl Koch

tra gas from crude; Stalin early customer, bought 15 cracking units 1929. Fred died 1967, four sons inherited \$250 million (sales) oil marketer; chairman Charles added refining, gas, chemical operations. Private Koch Industries now estimated \$13 billion sales, over \$212 million earnings. Charles: Wichita, Kans. 52. Married, 2 children. Three degrees MIT; joined Koch after management consultant gig: "I decided that managing one's own company might be more interest-

Andy Freeberg



David Hamilton Koch

ing than consulting to somebody else's." David: NYC. 48. Single. After consulting job, joined Koch 1970; now NYC-based executive vp. Fur flew in 1981-83 scrap for control with brothers William, Fred (see both): Bill claimed chintzy dividends, sued Charles for mismanagement; Charles claimed Bill "afflicted with psychiatric ailments." Settled by \$1.5 billion buyout 1983. David: "They wanted cash and they got it. But we got the company." Charles', David's 80% Koch Industries, other assets, worth at least \$2.2 billion.

David Rockefeller

Inheritance. Banking, real estate. NYC, Tarrytown, N.Y. 73. Married, 6 children. Grandson of John D. Rockefeller; youngest of five brothers (see Laurence and family). Chair-



David Rockefeller

man Rockefeller Group, highly diversified family investment firm (now taking \$80 million stake in Marine-Wendel, controlled by French Wendel steel dynasty); 670-acre N.J. business park (International Trade Center). Only brother with successful career in traditional family business (Chase Manhattan bank). Ph.D. economics 1940, bank CEO 1969-80. Assumed role as international statesman; arrival in South American capitals sometimes sparked riots. Major role NYC real estate (including ill-fated Westway project); 45% S.F.'s Embarcadero Center. Son David Jr., 46, now chairman Rockefeller Brothers Fund, major philanthropic arm. Oversaw family's cash-out on Rockefeller Center, acceding to wishes of cash-hungry younger relatives. His investments in real estate, share of family trusts, etc., believed worth over \$1.1 billion.

Edward Louis Gaylord

Media, real estate. Oklahoma City. 69. Married, 4 children. Father E.K. bought into *Daily Oklahoman* 1903; one of state's most powerful men, steered company single-handed until death in 1974 at 101. E.L. showing business savvy of his own: \$250 million 1983 purchase of Grand Ole Opry, Opryland and now thriving Nashville Network (also owns

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tv show *Hee Haw*); 20% Telerate 1986 (sold half, \$90 million profit so far). Sold 2 tv stations at 1987 market peak for \$425 million. Oklahoma Publishing Co. still has 1 newspaper, 35% of Texas (baseball) Rangers, 5 tv and 3 radio sta-



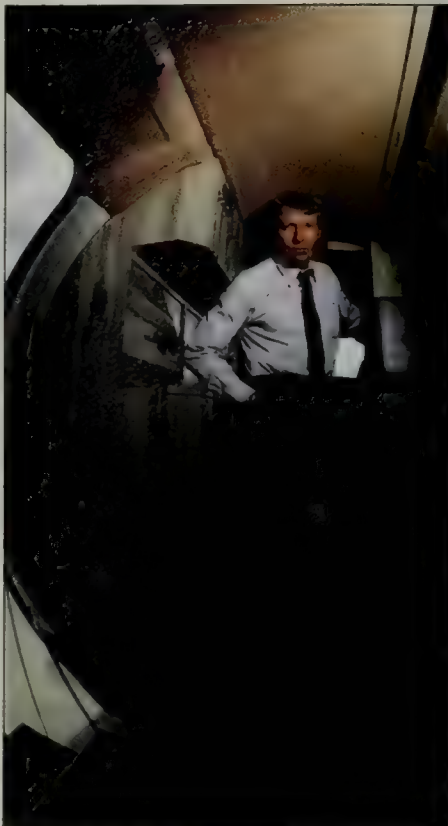
Edward Lewis Gaylord

tions. Fiercely conservative, opinionated: "We're against liberal bubbleheads." Son E.K. II, 31, heir apparent, but E.L. not likely to step aside soon. Fortune conservatively estimated at \$1.1 billion. "We don't like puffed-up numbers."

Harold Clark Simmons

Investments. Dallas and Montecito, Calif. 57. Twice divorced, remarried; 4 daughters. Son of Golden, Tex. schoolteachers, studied economics at U. of Texas at Austin. First worked as FDIC bank examiner, then loan officer. Bought Dallas drugstore for \$5,000 in 1961. Acquired 100 stores, sold to Jack Eckerd Corp. for \$50 million stock 1973. "Texas Gunslinger" searches out undervalued companies, invests (reaped \$91 million on SeaLand bid, \$142 million from GAF: "I am sometimes called a corporate raider"); also collected sugar refining, chemical, fast-food companies. Merged 2 public firms (LLC Corp., Amalgamated Sugar), created public co., Valhi Inc. Also has 52% NL Industries, extensive real estate in Colorado, southern Louisiana. Active philanthropist, founded arthritis research center in Dallas with \$10 million in 1985. Avid skier

Charles Thatcher



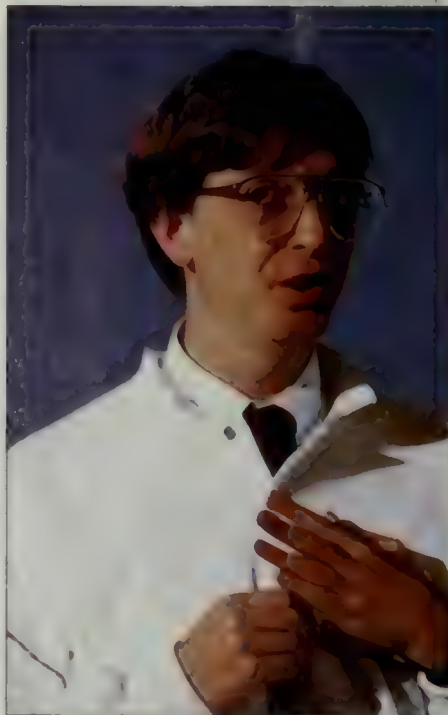
Harold Clark Simmons

with family, plays tennis, rides dirt bikes. Stock, real estate worth at least \$1.1 billion.

William Henry Gates III

Microsoft. Seattle. 32. Single; nicknamed Trey. Created first computer program at 13; first software

Self-Resnick Picture Group



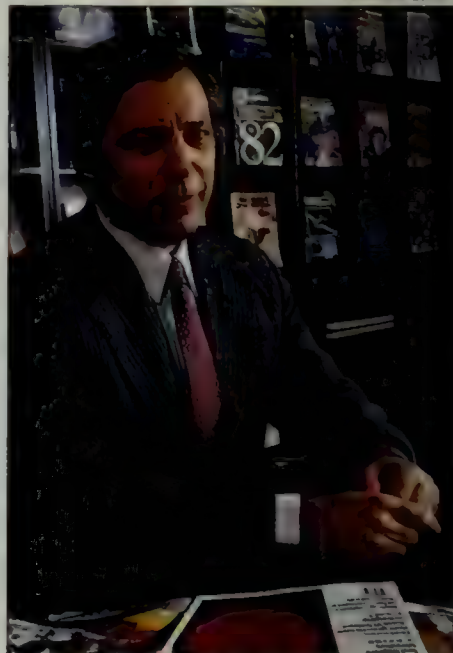
William Henry Gates III

business at 15. Scored perfect 800 on math portion of SAT; dropped out of Harvard at 19 to found Microsoft with Paul Allen (*which see*) 1974. Now a leader in independent personal computer software; almost \$600 million in revenues. Notorious for fast driving; even slapped with speeding ticket in his power boat. Takes only short vacations for reading or travel. Works until early morning. At Microsoft, creates infectious intensity and competition. Casual dress, even bare feet routine for employees; Gates puts emphasis "on results, not appearances." Results for his nearly 40% of Microsoft: worth at least \$1.1 billion. "High-tech stocks are volatile. The price is not a reflection of the contribution we're making." But it reflects more than bare feet.

William Bernard Ziff

Publishing. Manalapan, Fla. 57. Divorced, 3 sons. Father was WWI aviator, noted lecturer, author; founded Ziff-Davis 1927. On father's death 1953, 22-year-old William Jr. bought out Davis; tackled

Lawrence Barns



William Bernard Ziff

"special interest" markets, launching *Car & Driver*, *Boating*, *Stereo Review*, *Skiing*, ultimately some 50 magazines, 6 tv stations. Editorial took backseat to advertising. Bout with cancer early 1980s prompted liquidation. Sold stations for \$100 million 1983; in 1985, 12 trade

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magazines to Rupert Murdoch (*which see*) for \$350 million; 12 consumer magazines to CBS for \$362.5 million. CBS sued, claiming overpayment, but sold at profit 1987. Electronic services division sold 1986, still has 7 computer titles (estimated sales, \$145 million) including *PC Magazine*. Combative; trivia fanatic; alters terrain at 39-acre N.Y. estate at whim. Fortune, including \$400 million trust designed to encourage sons' interest in computers, worth over \$1 billion.

Sid Richardson Bass

Lee Marshall Bass

Brothers. Oil, investments. Fort Worth. Two of four sons of Perry Richardson Bass whose uncle, oil legend Sid Richardson, started with \$40 from Perry's mother. Left bulk of reported \$100 million estate to charity 1959, rest to Perry, who built new oil empire. To eldest son Sid after Stanford B-school 1968: "This is your responsibility... I'm going sailing." Sid: 45. Married, 2 children. Found different gusher in stock plays: Marathon Oil (est. profit, \$160 million), Texaco (\$450 million), forced Disney turnaround (somewhat reduced holding still worth \$1.4 billion). Owes much to adviser Richard Rainwater (*which*



Sid Richardson Bass

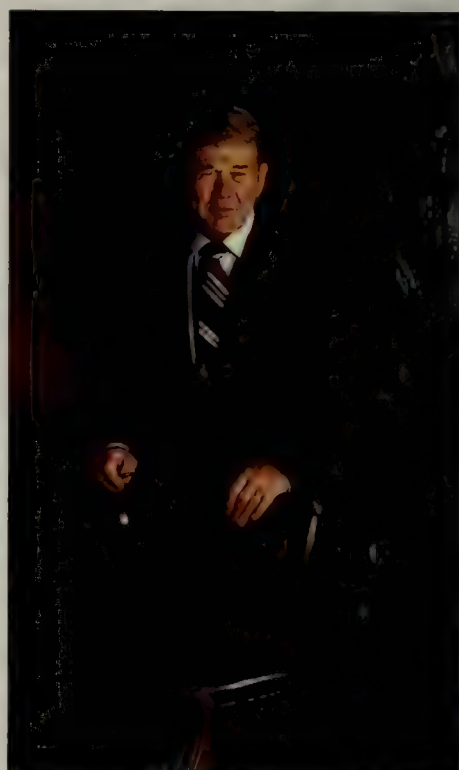


Lee Marshall Bass

see) who went solo 1986; brothers Robert, Edward (*see both*) separated much of holdings, with private IRS ruling 1985. Ultraprivate Sid dove into NYC high society at wife's urging; now facing divorce settlement, rumored near \$500 million. Lee: 32. Married, no children. Yale (as are other three), Wharton M.B.A. Invests with, overshadowed by Sid. Two brothers' share of family assets, private partnerships worth estimated \$2 billion.

William Redington Hewlett

Hewlett-Packard. Portola Valley, Calif. 75. Widowed, remarried 1978; 5 children, 5 stepchildren. Attended Stanford engineering; befriended David Packard (*which see*). Started H-P in garage, 1939, with \$538; used Hewlett's master's thesis design for first product, audio oscillator; used in innovative *Fantasia* movie soundtrack. "Technological wizard" developed shock machine for dieters: "In the beginning we did anything to bring in a nickel." Pushed for world's first hand-held calculator despite company doubts. H-P became largest microcomputer, electronic test, measurement equipment manufacturer: 1987 revenues \$8 billion. Also known for people-oriented management style: "I'm a believer in management by wandering." CEO, 1969-78; retired from board, 1987. Philanthropies: medicine (father was Stanford professor of medicine), education; hobbies: fishing, skiing, mountain climbing,



William Redington Hewlett

botany. Raises cattle with Packard. His 11% of Hewlett-Packard worth at least \$1 billion. "We were successful because we had no plans."

Donald Worthington Reynolds

Publishing. Las Vegas. 82. Thrice divorced, 3 children. Son of door-to-door grocery peddler: "We never



Donald Worthington Reynolds

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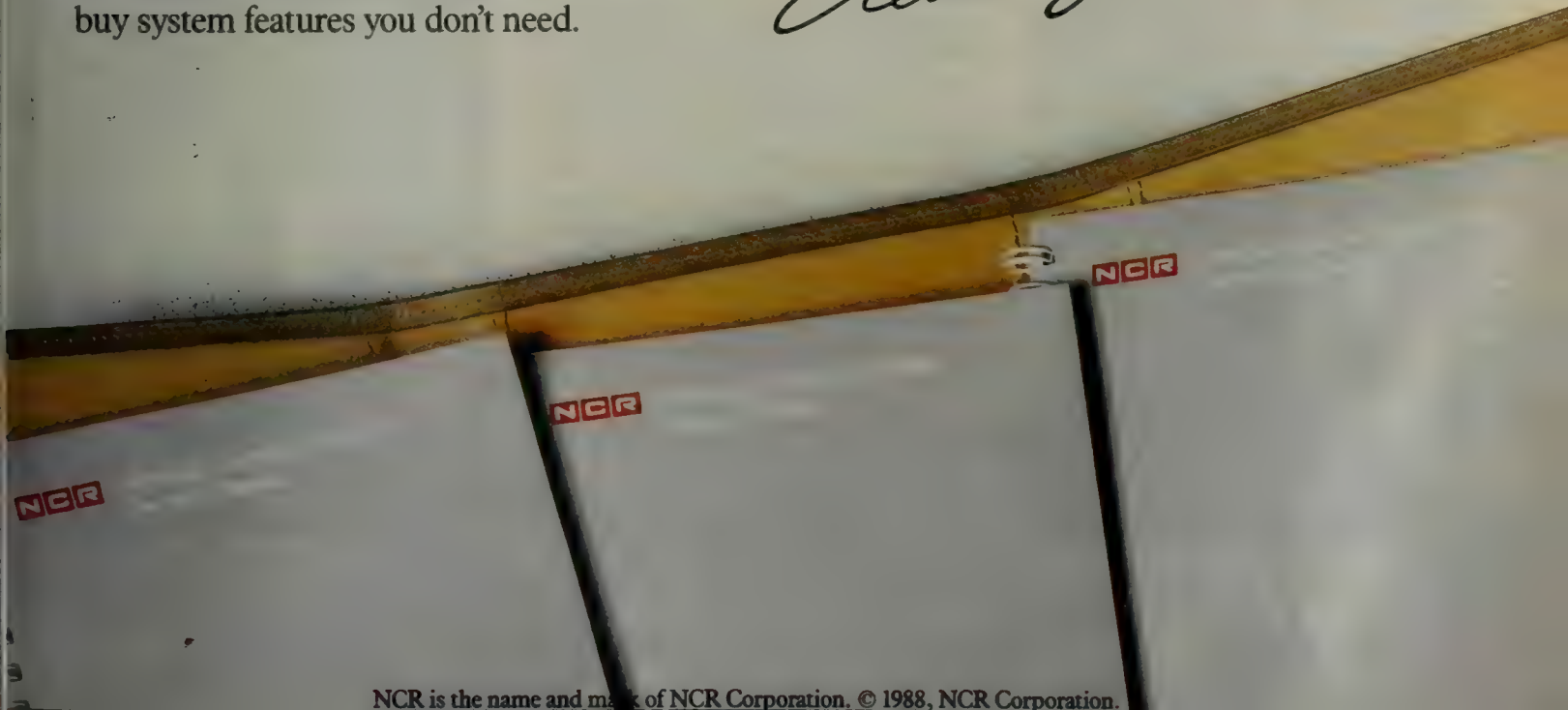
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missed any meals, but that was about it." Hawked newspapers; worked way through U. of Missouri, journalism degree. Fired from first two jobs, but saved enough to invest in printing plant. Took shrapnel hit in forehead WWII: "It got rid of my sinus trouble." Since war, no-frills policy helped build highly profitable Donrey Media Group: 59 dailies, 62 nondailies, tv station, cable and billboard companies. Flagship is *Las Vegas Review-Journal*. Hates unions; cost-cutting fanatic. Reports many personal relationships, but "not because I'm cute, just solvent." Children uninterested in business; foundation set to inherit estate worth \$1 billion when Reynolds heads to "that big newsroom in the sky."

Leslie Herbert Wexner

The Limited, Inc. Columbus, Ohio. 51. Single. "The finest merchandiser in the country today" dropped out of law school to work in father's clothing store. Disagreed with buying, marketing techniques; borrowed \$5,000 from aunt to segment-market sportswear to young women. First store 1963; 1987 revenues over \$3 billion, 3,270 stores nationwide. Strong sales, partly from acquisitions: NYC's Henri Bendel, Lerner Shops, Victoria's Secret. Flies merchandise from warehouses in Columbus. Also designs successful faux-for-eign labels: Outback Red, Forenza.

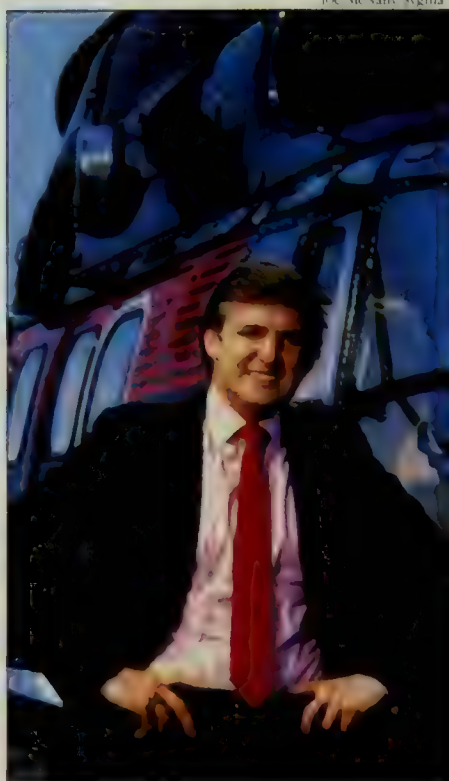


Leslie Herbert Wexner

Heavily charitable; owns several homes; dogs that he calls "the Wexner children." Earnings down, but his stock in the Limited still worth \$1 billion. "I never knew of anyone who made \$15,000 a year. My parents worked 70 hours a week and never made \$10,000."

Donald John Trump

Real estate. NYC. 42. Married, 3 children. Father Fred built Brooklyn and Queens apartments; Donald sent to New York Military Academy for high school. Fred: "He



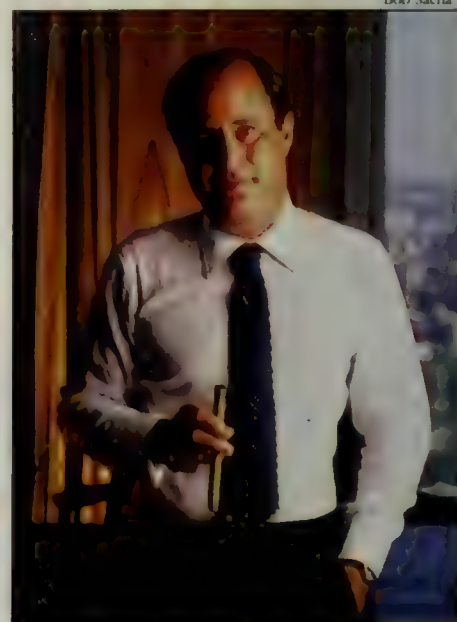
Donald John Trump

was a pretty rough fellow when he was small." Joined family real estate business after Fordham, Wharton business school. Moved on Manhattan 1975: built 1,347-room Grand Hyatt at Grand Central Terminal 1975; topped out opulent Trump Tower NYC 1983; sold condos for \$275 million, kept lucrative commercial portion. Moved on Atlantic City 1984: opened Harrah's casino, bought out Holiday Corp.'s interest, renamed it Trump Plaza; bought Trump Castle casino from Hilton for \$320 million 1985. Combined 1988 projected cash flow over \$150 million: "I'm breaking every record in the history of Atlantic City." Full toybox: "The man in the street, the little guy,

digests the limo, the helicopter, the 727." And the huge yacht. Lost Resorts bid to Merv Griffin (*which see*) 1988. Squeezed \$125 million out of runs on Holiday Corp., Bally's, Allegis. "It's sure a lot easier than real estate." Claims \$3.74 billion net worth. Exaggerating less than usual: Actually, thanks to soaring casino cash flow, officially estimated worth \$1 billion this year.

Ronald Owen Perelman

Leveraged buyouts. NYC. 45. Divorced, remarried; 4 children. Youngster tagged along as father built small Philadelphia conglomerate; sat on board in grade school, continued there after Wharton. Borrowed \$1.9 million to buy 40% of jewelry distributor Cohen Hatfield 1978, turned it into \$4.8 billion (assets) empire MacAndrews & Forbes with pyramid power: Use junk leverage to buy companies with undervalued assets, sell some but keep cash cows, then go after bigger fish. Abrasive, tenacious dealster bagged Revlon for \$3 billion 1986, then made \$4.1 billion bid for Gillette. Weird conglomerate now controls cosmetics (Revlon, Max Factor), drug testing (National Health Laboratories), licorice and cigar makers, etc. Agreed to sell Technicolor for \$780 million (bought 1983, \$125 million). In spite of heavy debt, may be worth over \$1 billion.



Ronald Owen Perelman

Strategies For Investing In A New Era

The approaching presidential election heralds a new era. The new administration will have some important tasks: to bring the burgeoning federal budget deficit under control, to take steps to correct a huge trade imbalance, and to implement measures to ensure the economy is firmly on course for the 1990s.

Individual investors are facing many unanswered questions. Will taxpayers see further congressional tinkering with the tax code? Where are interest rates headed? Will inflation begin to heat up? What's ahead for the rest of 1988 and in 1989 in a financial marketplace still shaken by Black Monday?

But we think that opportunities lie ahead for those who know where to look.

Realities of the New Era

The first step in adjusting your investment orientation is to reexamine the macroeconomic environment. Donald J. Straszheim, chief economist at Merrill Lynch, offers some insight.

ON BLACK MONDAY . . . "Black Monday was more a financial event than an economic event. Business confidence suffered briefly, but on the whole, business has remained remarkably optimistic about the future. Consumer confidence, reflected in continued fairly strong sales of automobiles and single-family homes, has also held up well. The economy absorbed Oct. 19 better than almost anyone expected.

"On Oct. 20 of last year, a key issue was understanding what the stock market collapse meant. One conclusion seemed inevitable: the U.S. needed to reduce consumer spending and to increase the savings rate. That meant a slower consumer sector. Thus, we needed stronger trade and increased capital spending to take up the slack. Could we achieve this major economic transition smoothly—without a recession?"

"In retrospect, yes. The consumer sector has slowed to a walk, our trade picture is improving, and capital spending is up. So there's a lot of room for optimism."

ON THE ELECTION . . . "How does the economy affect the election? Begin with the two basic economic ills: high inflation and high unemployment. The so-called 'misery index' is the sum of the inflation rate and the unemployment

rate. When the misery index is low, people are pleased with the economy's performance; and when it's high, people are displeased. Historically, when the index rises, voters often look for a change in leadership, and when the index falls, they tend to reelect the incumbent."

ON TAXES . . . "The new president will not want to propose tax increases, but it appears that, under either Mr. Bush or Mr. Dukakis, we'll end up with some sort of higher taxes. One possibility is some kind of oil tax. Another possible contender, which is more controversial and perhaps further down the road, is a so-called 'value-added' tax, which is like a national sales tax or consumption tax."

ON INTEREST RATES . . . "The basic backdrop for interest rates right now is a strong economy and higher inflation, both of which portend an interim rise in rates. We think monetary policy could be tightened a touch further before 1988 is over to keep inflation from getting out of hand. That says that interest rates could rise slightly during the remainder of 1988. But in 1989, if the economy does as we expect, rates should begin to decline substantially."

ON TRADE . . . "We are far from balanced in our foreign trade account, and we don't see that changing in the near

future. While we've gained a lot of ground against Japan and Germany, we're still not so competitive as we might be against a host of newly industrialized economies—such as Korea and Taiwan. But the trade numbers are improving, and should keep improving, regardless of who is elected."

ON THE ECONOMY . . . "Employment continues to rise. But the consumer sector can't grow as quickly during the next few years as it has during the past few. We've already seen some significant slowing. Consumer debt is high, and higher interest rates should slow the consumer sector even more.

"Capital spending is the standout sector of the economy. During the first half of 1988, capital spending grew at about a 10% inflation-adjusted rate. That's a big turnaround from two years ago. We expect growth to continue through 1988 and much of 1989. We believe that high capital spending is necessary to make progress on the trade numbers.

"We anticipate a modest downturn in the economy in the second half of 1989. Whether that pause arrives a little earlier or a little later, or whether it is a little more severe or slightly more muted depends on a host of factors. But some kind of economic pause is likely during the next 24 months.

"With huge trade and budget deficits, the economy is out of equilibrium. That's risky. And world economies and financial markets are more internationalized today, so the outlook is inherently uncertain. You can't resolve the volatility in the markets and uncertainty about the economy until some of the basic imbalances are corrected."

ON INFLATION . . . "While we believe there is little chance of a return to

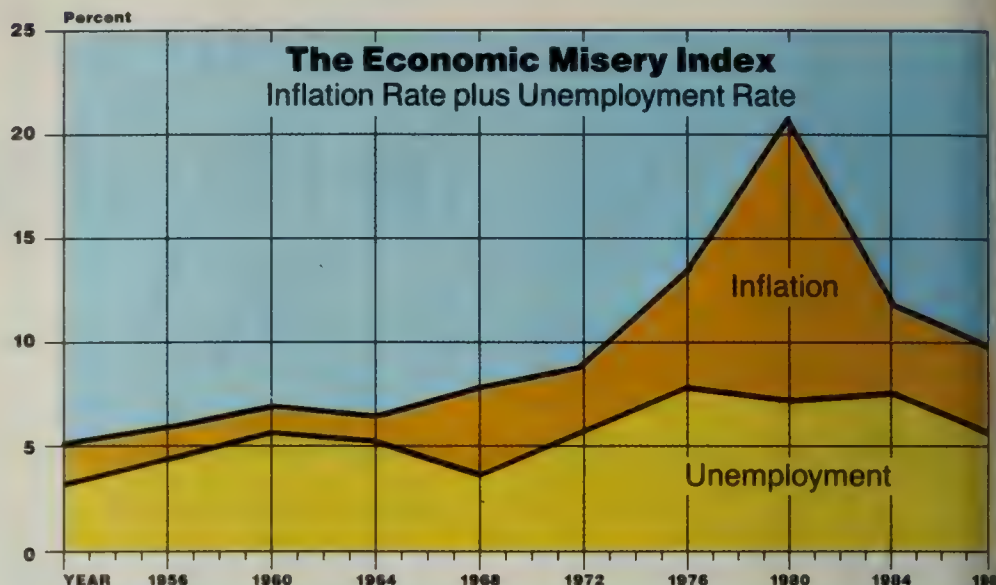


Strategies For Investing In A New Era

the double-digit inflation rates of the early 1980s, inflation is on the rise.

"With the unemployment rate near a nine-year low, wages should rise as companies bid up the price of labor. Capacity utilization is high, so strong demand should allow companies to increase prices in at least some industries. The drought this last summer should have only a modest inflationary effect, because it takes a huge rise in agricultural-input prices to affect the price for food on the supermarket shelf.

"Imported products are more expensive because of the falling dollar, and we expect that to continue. Oil remains in excess supply. So, barring a major political event in the Middle East, we see little upward pressure on inflation from increases in oil prices."



The Misery Index can be an election barometer. Historically, when the index rises, people are displeased and look for a change in leadership; when the index falls, people are pleased and the incumbent is favored.



The Measure of the Market

Robert J. Farrell, chief market analyst at Merrill Lynch, talks about the investment outlook for 1989 and beyond.

Q: Is the stock market still feeling the effects of Black Monday?

A: Yes. In general, investors have become extremely risk averse, and they question the equity market. We believe that it will take time to rebuild confidence and attract individuals back to investing in equities. When stocks are overvalued by most historical measures, demand for stocks is high, partly because they are going up. Now when stocks no longer appear overvalued and in some sectors are undervalued, investors show little interest, primarily because prices have declined. Logic and history tell us that opportunities increase in times like these. Also, as long as there is doubt that the bear market is over, substantial cash will stay on the sidelines and provide some support against a large further decline. Stock market investors are acting as if they expect October 1987 to happen again. That is an important plus, because what we are best prepared for rarely happens. There are reasons, therefore, to believe that the worst of the market decline occurred in the fourth quarter of 1987.

Q: Where do you see the market going from here?

A: A number of problems are still to be

resolved before we can conclude that further bear market risks of at least intermediate dimensions have been minimized and that a new bull market can start.

The first is that the economy is still strong, earnings are at a peak momentum, and interest rates are still rising. Actually, the best conditions for a market bottom are a weakening economy, faltering earnings and declining rates. The second is the unusual difference between the bond buyer's and the stock buyer's perception of risk. Stock buyers are very cautious and risk averse, but bond buyers are showing a strong appetite for lesser quality bonds. A business slowdown, if it occurs, could revive credit risk concerns. The third is the post-election uncertainty about how the new Administration will deal with the budget deficit.

Probabilities are against beginning a repeat anytime soon of the multi-year uncorrected kind of advance that occurred in 1984-87, and probabilities are also against a repeat of the kind of collapse that occurred in October 1987. More likely, we will have a market that is much less extreme or one of transition like that of the 1970s.

Q: What is the best way for investors to approach today's stock market?

A: Instead of trying to mastermind the fate of the world and waiting for crash or boom conditions, we would keep preservation of capital foremost in mind and would spend our efforts looking for the pockets of opportunity in undervalued sectors and individual stocks.

Over a 60-year period, the annual rate of return on stocks has averaged 10%. Over the last nine years, however, stocks yielded more than 16%. Because stocks have been overperforming—even with last year's decline—you can expect them to underperform their historical average over the next five years. That is a good reason

to consider investing in high-quality bonds, which are yielding 9% to 10%.

Good opportunities may be available in secondary growth stocks, which have a 60-year average return of 12.1%. During the last four years, those stocks have substantially underperformed their historical average and are now one of the undervalued sectors of the market. The NASDAQ index was up only 4% from June 1983 to June 1988.

A good case can also be made for stocks that pay high dividends with some prospects for growth. Because dividends are taxed at the same rate as capital gains under current law, a 6% to 8% upfront return on an electric or telephone utility appears quite attractive.

Q: What effect will the election have on the market?

A: The basic problem in an election year is the uncertainty preceding the election, which may cause the market to react negatively for a while. After the election, either party must deal with the budget and trade deficits, so some negative reaction is possible until we see the kinds of policies that will be instituted to deal with those problems. In fact, we might consider 1989 to be a year in which to straighten out problems and set the base for the next bull market phase.

We believe testing and reassessment will continue before the election, but doubt that any new collapse will occur. Next year is not apt to be a great year for the market—first years of presidential terms rarely are.

Nevertheless, 1989 may bring nothing worse than a trading swing market. In other words, stock picking and timing swings may be the keys to successful investing for some time ahead. We are staying with a strategy of buying in oversold markets and cutting back in overbought markets.

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These recommendations are current as of 9/13/88. Economic conditions can change. Contact a Merrill Lynch Financial Consultant for current recommendations.

Investing Before the Inauguration

With the big picture in mind, it's time to take a closer look at the markets. Cautioning investors to be selective in today's environment is Charles I. Clough, Jr., chief investment strategist for Merrill Lynch. "Our basic view is that, as the economy adjusts, the smart investment position includes a mix of high-quality, long-term bonds and stocks leveraged into U.S. capital spending."

"That concept of 'asset allocation' is important to all investors because changes in allocation can significantly influence performance. If an investor's assets are strategically diversified among the three asset areas—stocks, bonds, and cash—the overall effect of an unexpected upheaval in one area is

lessened.

"Asset allocation is not a one-time action, but a continuing process. Of course, an individual's asset-allocation mix also depends on the person's financial situation, investment philosophy, and tolerance for risk.

"Our recommended asset mix (see chart at left) may remain fairly stable for long periods of time, or we may make frequent gradual adjustments. The key is to pay attention to the direction of change, which may indicate an anticipated trend.

"In volatile markets, prices for one class of assets periodically move out of balance in relation to others. Today we are emphasizing bonds, while stocks, particularly in the consumer and certain commodity sectors, are underweighted. (A partial list of overweighted and underweighted industry groups is shown below.)

"Merrill Lynch's asset mix is determined by an assessment of economic strength as reflected in employment and industrial pricing trends that are related to bond market behavior, and money supply/GNP relationships that are tied to stock prices. Our current position is to continue moving in the direction of bonds as higher yields offer increasingly attractive compounding for total returns. Full bond positions should coincide with a downturn in industrial pricing and employment trends.

"What's ahead for the markets? Recovery in the export and investment sides of the economy and slowdowns in domestic consumption and the financial sectors are the themes. With yields on long-term Treasuries reaching 9.50% or more, bond yields challenge the long-term return on equities. As domestic demand and credit growth slow, interest rates should begin to decline, but corporate earnings may come under pressure. In that environment, we suggest that bonds are the assets of choice.

"Nonetheless, some sectors of the stock market appear attractive. Over the past 20 years, growth in the equity

market has largely been limited to the consumer and financial sectors. Today, increasing exports are prompting a major longer term shift in earnings power, led by the recovery in the capital spending, energy and farm sectors."

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7 Ways to Save on Taxes Before Year-End

Here are some ways to reduce your 1988 tax bill. Before taking action, consult your tax advisor to determine if the strategies are suitable for you. A Merrill Lynch Financial Consultant can help execute the transactions.

1. Go short against the box, or buy puts, to lock in capital gains but defer taxes until 1989.

2. Consider realizing capital losses, which can offset up to \$3,000 of ordinary income on a dollar-for-dollar basis after offsetting capital gains.

3. Investment interest deductions are limited to investment income plus 40% (20% in 1989) of the next \$10,000 of interest expense. Consider selling securities held at a gain to maximize the deduction.

4. Consumer interest is 40% deductible this year (20% in 1989). Consider paying off consumer debt with a home equity loan—interest on loans up to \$100,000 can be deducted.

5. The spread between the alternative minimum tax rate (AMT) and the regular rate has narrowed, subjecting more people to the AMT. Calculate your liability early to leave time to act.

6. Investment income over \$1,000 of children younger than 14 is taxed at the parents' higher rate. Readjust portfolios so children generate taxable income of less than \$1,000; move other assets to tax-free investments.

7. Sidestep the tax on appreciated securities by donating shares to charity instead of selling them and donating cash.

For your free copy of *45 Tax-Saving Ideas*, which includes these and many other strategies, call 1-800-637-7455, Ext. 8213. Act soon and we'll include the new Merrill Lynch 1988 *Tax-Saving Ideas* brochure as a bonus.

Industry Group Portfolio Guidelines

OVERWEIGHTED GROUPS	UNDERWEIGHTED GROUPS
Electric & Telephone Utilities Regional Banks Insurance Diversified Machinery Machine Tools Construction & Engineering Oil Equipment & Services	Beverages Drugs Foods Precious Metals Retailing

These industry group weightings are current as of 9/13/88. Overweighted groups indicate portfolios should hold relatively more of these securities or have more assets in these industries. Economic conditions can change. Contact a Merrill Lynch Financial Consultant for current recommendations.



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Jack Kent Cooke

Media, real estate. Middleburg, Va. 75. Twice divorced, separated; 2 sons; alleged daughter by most recent wife. Canadian-born, family ruined in Depression. Sold encyclopedias, soap door-to-door. Bought radio stations, newspapers with magnate Lord Thompson; assembled industrial firms. Sold all, naturalized by act of Congress 1960. In Los Angeles bought (basketball) Lakers 1965; built Forum; sold all 1979. Bought NYC's Chrysler Bldg. for \$87 million 1979, refinanced for \$250 million 1987. Sold early cable TV investment for \$80 million profit 1981, shelled out \$1 billion for cable systems 1987. Owns D.C. Redskins, LA *Daily News*. Identified fortune over \$950 million—unless he gets \$1.9 billion price asserted for new cable interests.

Carl Henry Lindner II

Insurance, banking. Cincinnati. 69. Married, 3 sons in business. Left high school to deliver milk for Depression-hit family dairy; opened ice cream store 1940, built to 220-store United Dairy Farmers chain. Formed American Financial Corp. (assets now \$8.1 billion) with three small S&Ls 1959; casualty insurance 1971; took private for \$340 million 1981. Takes big positions, sets course of selected firms: Penn Central, Taft Broadcasting, United

Brands, etc. Family controls Provident Bank. Strict Baptist, hands out card: "The harder I work, the luckier I get." Security fanatic; collects Stutz cars. Postcrash, not clearly billionaire, but over \$950 million.

Kirk Kerkorian

Investments. Beverly Hills, Las Vegas. 71. Twice divorced, 2 children. Son of Armenian immigrants, junior high dropout. After WWII repaired, sold DC-3s; built charter airline, sold for \$104 million profit 1968. Paid \$82 million for 40% MGM 1969; \$380 million for United Artists 1981, merged the two 1986. Complex buy-and-sell session with Ted Turner (*which see*) 1986: sold 50% to Ted for \$500 million, stock; bought back UA for \$480 million. Current hand: 98% struggling luxury airline MGM Grand; 79% of MGM/UA. Seen lately with Cary Grant's 37-year-old ex-wife. Can afford reported \$100,000 Superbowl bets: worth at least \$950 million.

Carl Celian Icahn

Finance. Bedford, N.Y. 52. Married, 2 children. Cantor's son from Queens; left medical school; arrived Wall St. 1960, started Icahn & Co. 1968. As raider, scooped \$190 million in profits from Marshall Field, Phillips Petroleum, Viacom, others. Admits "I'm not Robin Hood"; reviles "corpocracy" but cultivating image as manager. Bought ACF (leases, builds railcars) for \$470 million 1984; acquisition vehicle for 76% of TWA, 11% USX, 15% Texaco. His \$14 billion Texaco bid rejected in proxy vote but shareholders approved TWA privatization. With TWA turnaround, huge paper gains on investments, net worth est. over \$940 million. "I don't know if you call it fun, it's certainly challenging."

David Howard Murdock

Investments. Bel Air, Calif. 65. Divorced, widowed; 2 children. Son of a traveling salesman. Dropped out of school in 9th grade when fire destroyed family home. Pumped gas. Made it big building in Phoenix

after WWII. Went from \$100 million to \$13 million after 1963 collapse. Landed in LA. Recouped through real estate, small companies. Made \$100 million greenmail when spat with Armand Hammer forced Occidental Petroleum to buy him out. Bought Cannon Mills 1982, sold 1985. Now owns dozens of companies through Pacific Holding Corp.; 26.8% of \$1.8 billion (sales) Castle & Cooke. Collects Arabian horses. Recently took Flexi-Van (leases chassis) private. Worth well over \$900 million.

Laurance Spelman Rockefeller

Inheritance, investments. NYC and Tarrytown, N.Y. 78. Married; 3 daughters, 1 son. Grandson of John D. Rockefeller. Early venture capital with principal from huge 1934 trust: Eastern Air Lines, McDonnell Douglas, \$100 million gain Apple Computer. Developed exclusive resorts: swanky, remote vacation spots. Supported NYC Westway project with brother David (*which see*). Some resorts, management arm sold 1986 to CSX; not very active in business since. Gave \$36 million to Memorial Sloan-Kettering, \$10 million to Princeton; donated thousands of acres of land to national parks, preserves. His and his immediate family's portion Rockefeller fortune believed to exceed \$900 million.



Average estimated net worth of the members of The Forbes Four Hundred is about \$551 million.

The Forbes Four Hundred

Caroline Rose Hunt

Inheritance, oil. Dallas. 65. Twice divorced, 5 children. Second daughter of H.L. Hunt (see other Hunts, Margaret Hill). Brothers' silver debacle prompted her and sister to separate holdings 1983. Sold one-third of oil properties 1985; diversified into real estate, stocks, venture capital. Built \$250 million Dallas hotel/office/retail complex Crescent Court; bought superluxury hotels Dallas, Hawaii, Beverly Hills. Lives frugally except while visiting hotels: "For the first time, I have an excuse to live luxuriously." Managers including 4 sons and 1 daughter run her Rosewood Corp.; made \$30 million in failed Phillips-Van Heusen bid 1987. Believed worth over \$900 million.

Laurence Allan Tisch

Preston Robert Tisch

Brothers. Loews Corp. Bought Lakewood, N.J. resort with father 1946 after selling family summer camp; 12-hotel chain by 1955; next year built \$17 million Fla. hotel without mortgage; gained control of Loews Theatres, Inc. 1959. Split



80 members among The Forbes Four Hundred are unmarried.

from MGM, diversified into tobacco, insurance, hotels, Bulova watch; bought 25% CBS stock. Larry now runs broadcasting company with founder William Paley (which see). Brothers known as investment/management wizards; CBS will be test. Larry: NYC and Rye, N.Y. 65. Married, 4 children. "Mr. Inside" behind-the-scenes financial and strategic genius. Graduated from NYU's school of commerce at age 18, master's at U. Penn., attended Harvard Law before hotel career. Eldest son Andrew runs Bulova. Business philosophy: "Profits will follow from quality." Bob: NYC and Harrison, N.Y. 62. Married; 2 sons, 1 daughter. "Mr. Outside" personnel, client-oriented. Vacated Postmaster General post Mar. 1, 1988, after negotiating union contract that eluded predecessors 12 years. "If people believe in who you are and what you're telling them, they will work with you." Hobnobs with both Democrats, Republicans. Brothers say they invented "power breakfasts" at their Regency Hotel, 1976. Active philanthropists. With their 25% Loews, real estate, other assets, jointly worth \$1.7 billion.

Harry Weinberg

Real estate, securities. Honolulu and Baltimore. 80. Married, 1 son. Austrian immigrant; quit 6th grade, worked in father's repair shop. Bought run-down Baltimore buildings 1930s. Used profits to buy public bus companies (NYC, Dallas, etc.) 1950s, 1960s. Bought Hawaiian transit company, stayed. Sold out bus companies amid controversy. "Honolulu Harry" fancies aloha shirts, intimidation: successful raids Dillingham, Amfac, etc., 1960s. Today big holdings Alexander & Baldwin, Maui Land & Pineapple, real estate. Bone cancer said to be in remission; recently out of hospital after pneumonia. Fortune—less some in foundations—exceeds \$850 million.

Doris Duke

Inheritance. Somerville, N.J.; Newport, R.I.; Honolulu, etc. 75. Twice divorced, no children. Father James Buchanan (Buck) Duke formed

American Tobacco Co. from small tobacco crop overlooked by Yankees at ruined North Carolina farm in Civil War; also Duke Power Co. Left Doris so many millions known as "the richest girl in the world." Dogged by society, gossip reporters. Called spendthrift by press when built \$1 million Shangri-La estate in Hawaii 1937; now valued at \$30 million. Scholarly knowledge Oriental art; major force in Newport, R.I. restoration. Visible in N.Y., Newport society, no longer in press. Fortune, prudently invested, should be worth over \$800 million.

Winthrop Paul Rockefeller

Inheritance. Winrock Farm, Ark. 40. Divorced, remarried; 3 children by first wife. Great-grandson of John D. Rockefeller, only child of Winthrop (d. 1973), who leveled top of Petit Jean Mountain for Winrock Farm; twice Republican governor. Win Paul product of brief, much-publicized union with Barbara (Bobo) Sears; European schooling, flunked Oxford. Runs Winrock, increasingly active Ark. business, esp. banking; owns small ventures (e.g., Florida yacht co.); active Little Rock social scene. Blue-marlin angler; hunts, skis; cruises with local sheriffs on duty, set up Law Enforcement Assistance Foundation. His share family fortune estimated over \$800 million. (See also other Rockefellers, family.)

Michael Robert Milken

Finance. Encino, Calif. 42. Married, 3 children. CPA's son; H.S. cheerleader. Late-night studier at Berkeley, then Wharton; joined Drexel Burnham Lambert forerunner 1969. Conceived market for high-yield, high-risk "junk" bonds; at once investment banker, trader, investor (\$57 billion bonds sold to date). Paved way for mid-1980s takeover mania, many high-profile clients. Workaholic (at desk 4 a.m.). Clients, co-workers get pieces of deals. Sept. SEC civil suit against Mike, Drexel, others, alleged criminal activity—insider trading, fraud, stock manipulation, etc.—put pressure on Justice Dept. to act. Milken: "I will be fully vindicated." Fortune estimated at \$800 million.

The Forbes Four Hundred

Fred Trammell Crow

Real estate. Dallas. 74. Married, 6 children. Born Dallas, bookkeeper's son, studied accounting at SMU night school; later Ernst & Ernst gig; audited Navy contracts WWII. While running family grain wholesaler, built, leased Dallas warehouse 1947; then "another and another and another." Trammell Crow Co. U.S.' largest developer, owns, manages over 250 million sq. ft. retail, commercial, residential space. Trammell keeps estimated 20%, gives partners, managers equity. Trammell: "Everything in life is a risk. If it's without risk, it's probably without profit." Owns piece of Wyndham hotels. Three kids with him in business. Worth at least \$775 million.

Michel Fribourg

Grain trader. NYC. 75. Widowed, remarried; 5 children. Belgian family began trading grain 1813. Started Continental Grain U.S. 1921; Michel relocated to U.S. after France fell 1940. Army intelligence WWII. Took over after father's death 1944; widened to flour milling; poultry and pork production, processing; financial services et al. Controls 20% world grain trade, revenues over \$13 billion (2nd to Cargill, *which see*). Surrounds self with talent: "many egos, but only one opinion." Still chairman, named Pres. Donald Staheli CEO early 1988. Son Paul group president. With 10% Overseas Shipholding, 90% Continental, net worth should be over \$750 million.

Marc Rich

Pincus Green

Trading. Zug, Switzerland. Both 54, married. Rich: 3 daughters. Green: 2 sons, 2 daughters. Rich Belgium-born son of burlap bag maker, banker; family fled to U.S. 1941. Quit NYU for Philipp Brothers' mailroom. Teamed with Brooklynite "Pinky"; together climbed ranks, helped build Phibro (now part of Salomon Inc.) into world's largest commodities trader. Pioneered spot oil market 1968. Quit in huff 1973.



115 members of The Forbes Four Hundred have been divorced.

Formed Marc Rich & Co.; pirated Phibro execs and business. Now perhaps 2nd-largest trader (over \$13 billion in volume). Rich, strategist; nervy speculator, known as El Matador for manipulating bull markets (early 1980s conspiracy with Malaysians led to tin market crash). Pinky, administrator, shipping expert; dubbed the Admiral. Traded Iranian crude during 1970s hostage crisis; dodged \$48 million tax. Rich bought 20th Century Fox with Marvin Davis (*which see*), later sold. Pair fled U.S. 1983 ahead of 65-count indictment (tax evasion, fraud). Company paid \$150 million settlement 1984, \$21 million in fines. Both still on lam. U.S. offering up to \$500,000 for information leading to capture; face terms totaling 325 years. Rich took Spanish citizenship, Green Bolivian. State Dept.: They're Americans. Rich: "I'm a modest, quiet person who has never done anything illegal." Lately scheming to corner aluminum market; already said to control third of aluminum not held by big producers, 100% of Jamaica's raw alumina. Top trader tripped last October: sold aluminum short on London Metal Exchange, reportedly lost \$25 million when prices took off. Still jointly worth at least \$1.5 billion.

Norton Winfred Simon

Industrialist, art collector. LA area. 81. Divorced, remarried; 2 sons (1 deceased). Raised in Portland, Ore. as "mossback" conservative. As youth bought bags, towels, tissues from manufacturers to sell to local merchants. Dropped out of Berkeley after 6 weeks, bought, turned around bankrupt orange juice plant 1931. Gained control Hunt Foods 1943. Built conglomerate Norton Simon, Inc. (Hunt-Wesson, Simon & Schuster, etc.). Quit 1969, devoted wealth to art collecting. Plan to donate collection to UCLA has been dropped. Collection alone is valued at \$750 million. "Acquisitiveness is a disease which you can get in money or business or politics or art."

Milton Jack Petrie

Petrie Stores. NYC and Southampton, N.Y. 85. Twice divorced, widowed, remarried; 1 son, 2 daughters. Russian immigrant's son opened Cleveland hosiery store with \$5,000 in 1929. Bankrupt 1937; creditors repaid in full. Expanded through acquisition, now 1,600 stores including Rave, M.J. Carroll. Moderately priced, simple women's clothes. Stock slid 57% 1988. Slow to respond to competition. Tough boss; grandson Matthew Miller resigned 1988 after 2 years. Philanthropy exceeds \$100 million, including aid to slashed model, fatherless quintuplets. His 60% Petrie Stores, other investments worth at least \$750 million; may take private again.

William Randolph Hearst Jr.

Randolph Apperson Hearst

George Randolph Hearst Jr.

Phoebe Hearst Cooke

Millicent V. Baoudjakdjji

David Whitmire Hearst Jr.

Inheritance. Children, grandchildren of William Randolph Hearst (d. 1951), whose father George Hearst (prospector, land baron, lat-

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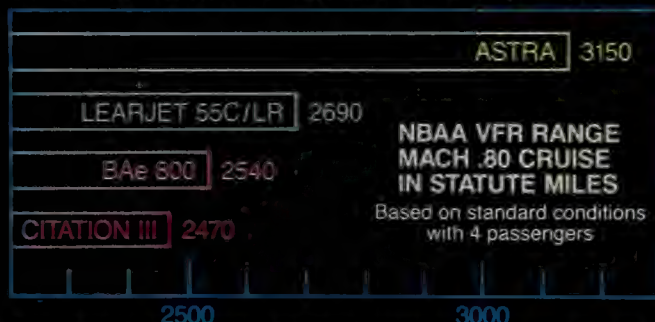
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*Source: 1988 Business & Commercial Aviation Planning and Purchasing Handbook, revised.

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er U.S. senator) took failing *San Francisco Examiner* from gambling debtor 1880. Only child, Harvard-expelled "Billie Buster" took over 1887, became country's most flamboyant, controversial media tycoon: outsensationalized former employer Pulitzer (see families) in great NYC press wars; built nation's onetime-largest newspaper chain. Model for *Citizen Kane*; built \$30 million temple of excess, San Simeon, now owned by state of Calif. Hearst Corp. (over \$2 billion sales) now 14 dailies, 38 publications (*Cosmopolitan*, *Popular Mechanics*, *Town & Country*), 6 tv stations, 7 radio stations, cable, book publishing, real estate, timber, etc. Recent acquisitions: *Houston Chronicle*, *Esquire*. Family in 5 branches: 1) Surviving son William Jr.: NYC. 80. Twice divorced, remarried; 2 children. Editor-in-chief Hearst Newspapers since 1955; Pulitzer-winning columnist 1956. Son WRH III, spitting image of WRH, *Examiner* publisher. 2) Surviving son Randolph: NYC. 72. Twice divorced, remarried; 5 daughters (incl. Patty). Hearst Corp. chairman. 3) Grandson George Jr.: Los Angeles. 61. Widowed, divorced; 4 children. His sister Phoebe: San Francisco. 61. Divorced, remarried; 1 daughter. Played major role 1974 buyback of company from Hearst Foundation by family trust. 4) Grandson David Jr.: Los Angeles. 44. Single. His sister Millicent: Los Angeles. 49. Married, 3 children. 5) Four children of eldest son John Randolph Hearst (d. 1958). John Jr., 54, only one active in co. Hearst Corp. now estimated worth at least \$3.75 billion with 20% for each branch.

Paul Mellon

Inheritance. Upperville, Va. 81. Widowed, remarried; 2 children by first wife (see Timothy Mellon, Catherine Conover). Grandfather Thomas started Mellon Bank forerunners, venture capitalist in Gulf Oil, Alcoa, Koppers, etc. Father, Andrew: U.S. Treasury Secretary 1921-32, founder National Gallery; d. 1937. Paul floated into, out of family businesses. Avid horseman breeds Thoroughbreds on 4,000-acre estate, collects art on grand scale. After donations (\$31 million for

building, perhaps \$100 million in art to National Gallery; \$18 million for building, perhaps \$100 million in art to Yale, etc.), October crash, net worth still estimated over \$750 million.

Edward Perry Bass

Oil, investments. Fort Worth. 43. Single. Second son of Perry Richardson Bass, nephew/heir of wild-catter Sid Richardson. Perry built up holdings, turned over to four sons (see other Bases). "Black sheep" Edward's contribution to family's downtown Fort Worth development: avant-garde nightclub



**The average age of
The Forbes Four
Hundred is 64.**

Caravan of Dreams. Spending \$30 million on enclosed ecosystem in Arizona with goal to one day inhabit Mars: Reportedly funded "cult" of "intellectual elitists" planning new "planetary civilization." Passive investor in family deals: "A lot of things I just have to read about in the paper." With family-held oil, etc., worth some \$750 million.

Helen Kinney Copley

Publishing. La Jolla, Calif. 65. Divorced, widowed; son by first marriage. Worked 12 years as secretary to James Copley, adopted son of *San*

Diego Union/Tribune publisher Colonel Ira Copley (d. 1947). Romance kindled: "I'll never know what he saw in me; I was so pathetically shy." Married 1965; gracious hostess until James' death 1973, then made herself publisher. Sold unprofitable papers, slashed payroll, beefed up editorial, also expanded. Copley Newspapers now 13 dailies, 33 weeklies, 1 biweekly, cable. Son David, 36, president, probable successor. James' 2 children from first marriage retain stake. "This is such a strange family; no one's really related." Helen's 90% worth \$750 million.

Joan Beverly Kroc

Inheritance. La Jolla, Calif. 60. Divorced, widowed; 1 daughter by first marriage. Third wife of Raymond Kroc (d. 1984), plastic-cup salesman who built McDonald's Corp. First marriage at age 17. Met Ray in St. Paul restaurant 1956, married 13 years later; 26 years his junior. Today Joan B. Kroc Foundation gives away millions annually: "I have been blessed with the means to put my convictions to work." Gave \$6 million to Notre Dame Peace Institute 1986; nuclear freeze advocate. "She is taking positions Ray Kroc would never support." Travels, spends time with 4 granddaughters. Her McDonald's shares, baseball Padres, other assets worth over \$745 million.

Ewing Marion Kauffman

Marion Laboratories. Mission Hills, Kans. 72. Married, 3 children. Started as drug salesman 1946, commissions soon exceeded president's salary. Developed first calcium pill from crushed oyster shells, launched Marion 1950; fiscal 1988 sales \$750 million. Bulk of revenues from aggressive marketing of other pharmaceutical companies' discoveries; Cardizem, heart drug, brought in 58% sales. "I want to give to people. I don't want any buildings named after me." Kauffman Foundation committed 1988 to funding entire high school class' college education if students avoid drugs, alcohol, parenthood. Owns 50% Kansas City (baseball) Royals. Net worth about \$740 million.

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Crville Wayne Rollins

Rollins, Inc. Atlanta. 76. Married, 2 sons (Gary, pres.; Randall, senior vice chairman). Farm boy, one-room school, made \$10 a week in textile mill. With brother John started auto dealerships; bottled water; radio ventures. Formed Rollins 1948. Picked up Orkin Exterminating 1964 (94% of Rollins, Inc. profits 1987) for \$62 million, no cash. Added media, oil & gas services, security systems. Took public 1963; split into three public companies 1984; sold Rollins Communications shares 1986 for \$270 million. Still CEO Rollins: "The most difficult thing for me to do is turn over the running of my company." Made \$70 million on Intermedics stake; Fla., Ga. ranchland. Worth at least \$740 million.

Samuel Curtis Johnson

S.C. Johnson & Son. Racine, Wis. 60. Married, 4 children. Great-grandson of parquet flooring salesman who founded wax co. 1886. Glo-Coat floor wax beat Depression; 1987 estimated sales over \$2 billion. Sam joined 1954, chrmn. 1967. Added nonwax items (Raid, Glade); personal care (Edge, Agree); joint venture interest Check-Up toothpaste line 1987. Took Johnson Worldwide Assocs. public late 1987 (sales, \$194 million; recreational accessories, canoes, etc.). At 59 got license to pilot jets. All children with firm: Curt, 33, runs \$90 million Wind Point Partners venture capital fund; also Helen, 31; Fisk, 30; Winifred, 29. Sam's 60%, etc. worth over \$710 million.

Jack Rudin

Lew Rudin

Brothers. Real estate. NYC. Jack: 64. Widowed, 3 children. Lew: 61. Twice divorced, 2 children. Rudin Management founded 1924 by father Samuel, his brothers, to manage Bronx, Manhattan apartments. Jack and Lew joined 1946; added midtown office space (incl. NY Merchandise Mart). Inbred philosophy: never sell. Rudin Management now owns over 4,000 apts., 8 mil-



**Among
The Forbes Four Hundred,
8 are in their 30s
46 are in their 40s
88 are in their 50s
134 are in their 60s
78 are in their 70s
42 are in their 80s
4 are in their 90s**

lion sq. ft. prime Manhattan office space; much built 1950s-60s. Led tax prepayment drive to keep NYC afloat late 1970s: "We had to do something. We couldn't very well pick up our buildings and move them across the George Washington Bridge." Lew founded, chairs Association for a Better New York; Jack heads NYC Marathon committee. Both press shy; together, worth minimum \$1.4 billion.

Carl Ray Pohlman

Banking, investments. Minneapolis. 73. Married, 3 sons in business. Son of Iowa RR brakeman, left college to sell cars. Took over Minneapolis bank holding co. after brother-in-law CEO died 1955. Bought, rejuvenated dozens of upper Midwest banks; turned failing bus co. into MEI Corp., third-largest Pepsi bottler, sold for \$160 million profit 1985. "We do things in a small way and watch them grow." Corporate raiding partner of Irwin Jacobs (*which see*); owns Minnesota (baseball) Twins, 25% (football) Vikings. Pumped \$200 million into \$675 million bailout of 2 Texas thrifts: "I've got a great deal of confidence in Texas." Banks, real estate, etc. worth at least \$670 million.

Louis Larrick Ward

Russell Stover Candies, Inc. Kansas City, Mo. 68. Married, 3 children. After Stanford, WWII in Navy, bought small paper box company 1950; supplied Stover candies. Saw potential in Russ and Clara Stover's homemade confections; bought "bungalow" company 1960, \$7.5 million, went public same year. Took private 1981; now nation's largest boxed-candy producer. "Bottom-line businessman" insists on top-quality ingredients; co. now worth near \$600 million. Plays cowboy "once in a while" on two Montana ranches; 2 sons "doing better in the business than I am." He's doing fine: worth at least \$650 million. "I think candy has proved to be a recession-proof industry."

Cveta Culp Hobby

Media. Houston. 83. Widowed, 2 children. Daughter of state rep.; appointed Texas House of Rep. parliamentarian age 20; 4 years later married former governor, *Houston Post* publisher William Hobby (d. 1964); ran for state legislature age 25, lost; HEW Secretary under Eisenhower. Self-described liberal Republican. Children carry on tradition of public service: William Jr. Texas lieutenant governor; daughter Jessica Catto published *Washington Journalism Review*. H&C Communications; now 1 radio, 6 tv stations; sold *Post* 1983, donated *Review* to U. Maryland. Soft Texas tv market drops tv stations' value; estimated fortune now some \$650 million.

Curtis Leroy Carlson

Entrepreneur. Minneapolis. 74. Married, 2 daughters. Father Swedish immigrant grocer; Curt worked in store after school. After U. of Minn. (1937) sold soap for Procter & Gamble, \$85/week. With \$50 loan, started Gold Bond Trading Stamp Co. 1938. Built one-man conglomerate with \$4.1 billion revenues (hit 50th anniversary 1988): TGI Friday's restaurants (owns 78%), Radisson hotels (42,000 rooms, many franchised), Ask Mr. Foster travel agencies, etc. High-pressure: exec. offices called Ulcer

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The Forbes Four Hundred

Alley. Hobbies: "I enjoyed playing golf but I gave it up. It was more exciting for me to be here working on deals." Gave \$25 million to U. of Minn. 1986; considering retirement. Worth at least \$650 million.

William Clay Ford

Josephine Clay Ford

Brother and sister. Surviving grandchildren of Henry Ford (d. 1947; see Ford family). Family-held Class B stock still controls 40% of company. William: 63. Grosse Pointe Shores, Mich. Married to heiress Martha Firestone, 4 children. Athletic youth; Ford director while Yale undergrad. Bought Detroit Lions 1961 for \$6 million: enthusiastic owner, mediocre team. Popular with family, thought shoo-in for chairman's seat on Henry II's retirement 1980 but passed by. Son William Clay Jr., 30, on board. With Ford stock, Lions, real estate fortune, worth at least \$630 million. "What William Clay Ford would like to say to all those ambitious Young Turks who dream of making that FORBES list is that being rich could screw up their lives." Josephine (Dotie): 65. Grosse Pointe Farms, Mich. Married into unrelated Ford family, 4 children. Son Alfie joined Hare Krishna; took name of Hindu king who gave up wealth to serve Krishna. Her stock, other assets, worth at least \$340 million.

Roger Milliken

Gerrish Hill Milliken

Brothers. Textiles, investments. Heirs of Seth Milliken, who co-founded dry goods jobber Deering, Milliken & Co. 1865 with William Deering (who left to found International Harvester). Seth financed fledgling southern mills, took over when Depression ravaged them. Roger now chairman Milliken Mills, world's largest private textile firm; even sales a closely guarded secret (estimated over \$2 billion). Gerrish: "We're very averse to anyone knowing." Roger closed one mill 1956 after vote to unionize; Supreme Court overruled, workers settled for \$5 million. Led anti-import "Crafted with Pride" p.r. blitz

1985: "We are sacrificing our industrial base on the altar of free trade, a god no other nation worships." Also 40% Mercantile Stores. Roger: Spartanburg, S.C. 72. Married, 5 children. Yale-educated; survived helicopter crash 1984; hard-driving: "It's always been work, work, work." Brother Gerrish: Greenwich, Conn. 71. Married; 4 sons, 2 daughters. After Army, took starting job in cotton mill in Union, S.C.; retired 1986 but keeps NYC office. Roger worth at least \$630 million; Gerrish \$430 million.

Alex Manoogian

Richard Alexander Manoogian

Father and son. Masco Corp. Grosse Pointe Farms, Mich. Alex: 87. Married, 2 children. Began small screw-manufacturing company after emigrating from Armenia 1929. Went public 1936; added plumbing supplies. Passionate tinkerer: One-handed Delta faucet invention, 1954, made Masco's fortune. Retired, chairman emeritus. Active in promoting Armenian causes; donated former Detroit residence for mayoral mansion 1965. Alex' shares in Masco Corp., other assets worth over \$262 million. Richard: 52. Married, 3 children. Studied economics at Yale; led diversification into other metalworking fields. "Nothing we develop is the stuff dreams are made of—they just make money." Acquired about 100 companies starting in early 1960s. Spun off Masco Industries (commercial products) from Masco Corp. (consumer products) 1984. Now chairman, CEO of both. Respected art collector; over 1,800 paintings, most 19th-century American. Enjoys boating; Masco holdings, art and other assets valued at over \$625 million.

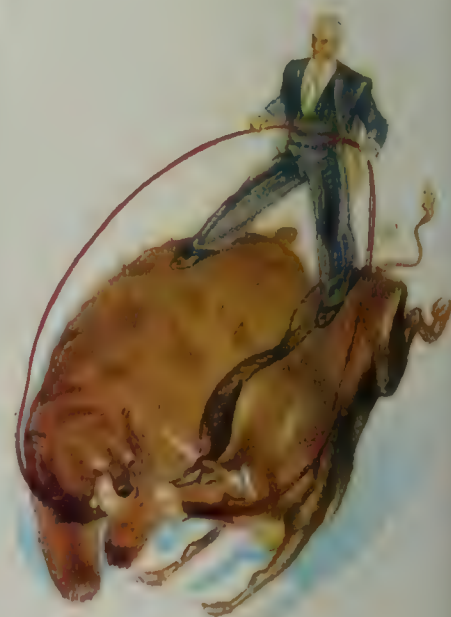
Katharine Graham

Washington Post Co. Washington, D.C. 71. Widowed, 4 children. Father Eugene Meyer bought bankrupt *Post* after building Allied Corp. forerunner. Kay, husband Philip took over 1946. Restored *Post* profitability, expanded, bought *Newsweek* 1961. Since Philip's death

1963, ex-housewife proved canny chief: Watergate scoop 1972, violent strike settled 1975. Son Donald, 43, *Post* publisher from 1979; daughter Lally Weymouth *Post* writer. Also 4 tv stations, expanding cable. Total revenues: \$1.3 billion. Voting rights recently altered to tighten family hold. Kay, with son, other family, has stock and assets worth over \$600 million.

Jeremy Maurice Jacobs

Sports concessions. East Aurora, N.Y. 48. Married, 6 children. Bros. Marvin, Louis, Charles ran early sports concessionaire; "Angel of Baseball" bailed out pro baseball clubs 1920s-30s, won long-term concession contracts (Detroit, Milwaukee, Chicago, etc.). Jerry (Lou's son) took over 1968, diversified; Delaware North Cos. now \$1.5 billion (sales) private sports behemoth: \$420-million-a-year pari-mutuel (dog and horse tracks), \$300-million-a-year concessionaire; parking, sports publishing, etc. "We're avaricious as hell." Owns Boston Bruins hockey club, famed Boston Garden. Jerry bought out two brothers; fat-margined businesses worth at least \$600 million.



**65 members of
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have fortunes derived
principally from
financial operations.
(In 1987, 69.)**



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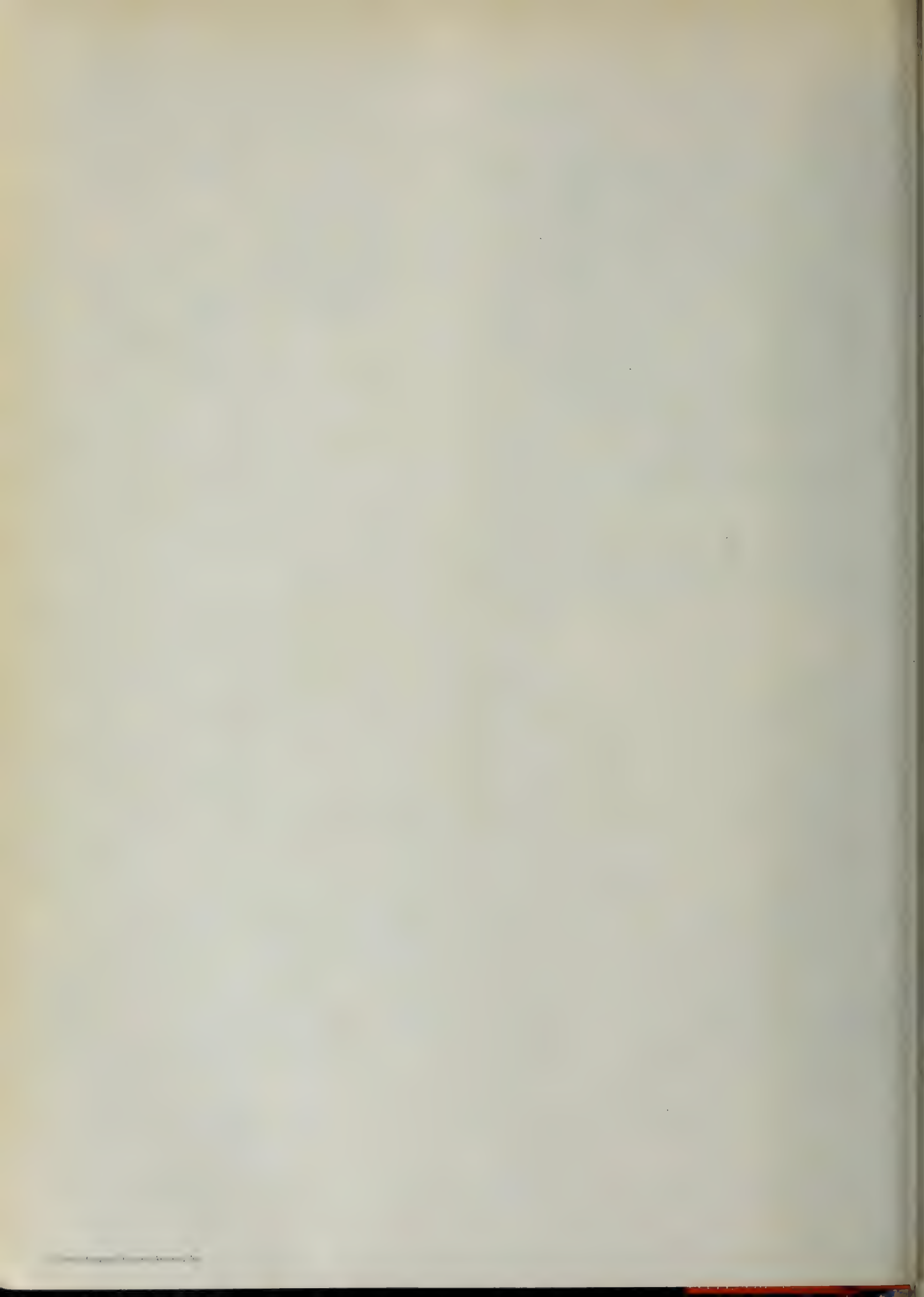
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That's Our Bag

Thomas John Flattery

Real estate. Milton, Mass. 57. Married, 5 children. Irish immigrant, landed in Baltimore 1950 with \$32 in pocket. Built first apartment project, 4-family-unit building, Boston 1959; amassed 5,500 units Boston area, N.H., R.I. Began building commercial property, got caught in mid-1970s real estate bust, stayed liquid doing workouts for banks. Now has 4 million sq. ft. offices, 2.5 million sq. ft. malls, 3,400-room Tara hotel chain, nursing homes, tv stations; New England's biggest developer. Few partners, modest leverage. Not incorporated, just files personal tax return. Lives on less than \$100,000/year. Worth at least \$600 million. "It's not my intention to rule the world."

Charles Henry Dyson

Conglomerator. NYC. 79. Married, 4 children, 1 son in business. Price Waterhouse CPA, left for Defense Dept. 1941; represented Treasury Dept. at Bretton Woods 1944. Textron vp postwar; wanted diversification, found Textron too slow. Left to form Dyson-Kissner (now also Moran) 1949, built DKM conglomerate with mundane but profitable private cos. (nearly \$1 billion sales), real estate, large public holdings (Esterline, Neoax, Varlen). "We're always into something new." LBO firms making it tough to find values: "We're in there fighting, it's a lot of fun." His 91% DKM worth fun \$600-million-plus.

William Ingraham Koch

Frederick Robinson Koch

Brothers. Oil services. Two of four sons of Fred Koch (d. 1967), co-founder Koch Industries (now \$13 billion private oil giant). Nasty 3-year battle for co. control with brothers Charles, David (*see both*) ripped Koch early 1980s. Bill claimed paltry dividends, poverty: "I'm one of the wealthiest men in America, and I had to borrow money to buy a house." Fred joined Bill's takeover bid; \$1.5 billion buyout of Bill, Fred, others' 48% Koch settled spat 1983. Bill (David's twin): Boston. 48. Married, 1 child. Founded Oxbow Corp. (\$2 billion energy trader) with half buyout money; operates Nev. geo-

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The Forbes Four Hundred

thermal electric plant; markets, trades coal, etc. "We're just a bunch of eastern farm boys trying to scratch out a living." Bill scratches with at least \$600 million. Fred: Monaco, NYC. 55. Single. Chose Harvard, then Yale Drama over MIT; not Dad's favorite: "Fred thought Freddy just indulged his pleasures in art and music." Now reclusive art collector, restorer. Worth at least \$450 million.

Robert Henry Ledman

Country clubs. Dallas. 62. Married; 1 son in business, 1 daughter. Born poor in Arkansas. After Navy got business, engineering and 2 law degrees; was lawyer for H.L. Hunt. Opened first country club, Dallas 1957, as sideline, got hooked. Moved into city clubs 1965. Club-Corp International now 225 clubs with everything from rack of lamb to racquetball. Huge cash flow from dues. Bought Pinehurst, N.C. resort 1984; resorts division plans \$100 million expansion. "Things are so bad in Texas, I figured you'd take me off this year." Unlikely, with net worth in real estate, etc. estimated at least \$600 million. Plans to give one-third away while alive: "They don't put luggage racks on hearses."



**15 members of
The Forbes Four Hundred
have fortunes derived
principally from
high technology.
(In 1987, 16.)**

Jerry J. Moore

Shopping centers. Houston. 60. Married, 3 children. Born to poor Polish Jewish immigrants; ghetto-born Jerry high school dropout. Started plumbing business age 18; 12-year gig selling vacuum cleaners. With savings, built low-cost Houston housing; bought first strip center 1966. His Jerry J. Moore Investments now controls 152 centers, 19 million sq. ft. of mall space; 80% in struggling Houston. "We were pickin' the men from the boys. Now we're pickin' the men from the men down here." Tends 428-car collection; bought Greta Garbo's Duesenberg for \$1.4 million 1987. "My IQ is about 20 points above genius. That's half-way to being insane." Worth well over \$600 million.

Henry Earl Singleton

Teledyne, Inc. Los Angeles. 71. Married, 5 children. Son of Texas rancher, set his sights early on big business. Annapolis and MIT, then Hughes Aircraft and Litton Industries. At Litton met George Kozmetsky, with whom started Teledyne 1960s; financed by Arthur Rock. Now over 100 companies in aviation, electronics, more. Major spinoffs: Argonaut Group (insurance), American Ecology. More expected. Architect of large-scale divestiture and stock buybacks. Known Teledyne and other stock holdings worth at least \$590 million. "I think the most important thing facing the company will be the development of the executive staff" for succession.

Jane Bancroft Cook

Inheritance (Dow Jones & Co.). Cohasset, Mass. and Sarasota, Fla. 76. Thrice widowed, once divorced. Only living grandchild of Clarence Barron, builder of Dow Jones empire (*Wall Street Journal*, Dow Jones ticker, 1902; *Barron's*, 1921), d. 1928. Jane shy and reserved. Dow Jones director 1950-85. Once avid sailor and rider; played summer stock opposite Humphrey Bogart. Major benefactress Boston-area hospitals and schools. "She doesn't



**73 members of
The Forbes Four Hundred
have fortunes derived
principally from media
enterprises.
(In 1987, 75.)**

call attention to herself in any way. You would never know that she was one of the richest people in the country." Daughter Martha S. Robes now a director. (See also *Bancroft family*, *William Cox Jr.*) Post-crash, Jane's one-third of family stockholdings, etc. worth some \$590 million.

Joe Lewis Allbritton

Broadcasting, banking. Houston; Washington, D.C. 63. Married, 1 son. Born in D'Lo ("Damn Low") Mississippi, son of Houston cafe owner; practiced law in Houston. Made first million by age 30 after co-founding Texas S&L. Bought now-folded *Washington Star*, but kept D.C. television station, WJLA (renamed with Allbritton's initials), now worth \$325 million. Began acquiring Riggs National Bank stock 1979: "We begin with a bank with a superb reputation, great historical roots and a very clean set of books." Allbritton Communications now has 5 television stations, 1 newspaper. Net worth, also including Houston bank, insurance, should be at least \$590 million.



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The Forbes Four Hundred

Donald Joyce Hall

Barbara Hall Marshall

Elizabeth Ann Hall Reid

Brother and sisters. Hallmark Cards. Kansas City, Mo. Children of Joyce Hall (d. 1982), son of midwestern preacher, began selling postcards 1906 at 15; then greeting cards. Friend Norman Rockwell illustrated Christmas cards. Hallmark longtime leader in industry, sales over \$2 billion; in over 100 countries, 20 languages; also Crayola Crayons; 12 Spanish-language tv stations. Joyce left much of fortune to charity, including proceeds from sale of stock to employee stock plan. Independent estate now threatened by IRS claim. Children: "Just plain Midwest folk who happen to be the progeny of a genius." Donald: Mission Hills, Kans., 60. Married, 3 children. His share of private co. worth \$560 million. Barbara: Kansas City. 65. Widowed, 2 children. Design critic, has stock worth \$285 million. Elizabeth: Denton, Tex., 66. Married, 1 child. Her stock worth \$285 million.

Daniel Keith Ludwig

Shipping, real estate. NYC. 91. Divorced, remarried; 1 daughter by first marriage, 2 stepchildren. Son of Mich. real estate agent. Quit school, borrowed \$5,000 at 19 to convert old steamer. With charter from oil companies as collateral, built world's 3rd-largest tanker fleet. Widely diversified: S&Ls, real estate, mines, oil & gas. Sank over \$1 billion in Brazilian wood-pulp empire; lost 8-year fight with Amazon jungle, Brazilian govt. Foreign assets owned by Zurich cancer institute. Once told employee: "Workin' on a deal is better than a climax." Has sold off some of empire; still has NYC, N.J. real estate, shipping. Believed worth over \$550 million.

Luigino Francesco Paulucci

Food processing, real estate. Sanford, Fla.; Duluth, Minn. 70. Married, 3 children. "Jeno" quit junior

college, sold fruit to support family. Borrowed \$2,500, turned bean sprout crop into Chun King canned Chinese food 1944; sold to R.J. Reynolds for \$63 million 1966. Founded, turned Jeno's Pizza over to kids 1967; sold to Pillsbury 1985, \$147 million. Strengths: marketing, cost management, work philosophy—"Run, don't walk." De-



**30 members of
The Forbes Four Hundred
have fortunes derived
principally from oil & gas.
(In 1987, 29.)**

veloping ultramodern, 3,000-acre planned community near Orlando, plus 5,000 prime acres. Shut down Fla. startups Pizza Kwik, China Kwik 1988; string-puller for Duluth's down-and-out. Net worth, with family, exceeds \$550 million.

Robert Lee Moody

American National Insurance. Galveston, Tex. 53. Divorced, remarried; 4 children, 4 stepchildren. Great-grandfather William Lewis Moody came from Va. 1860s, launched cotton, banking businesses. Grandfather William Jr. founded ANI 1903; added newspapers, hotel chains, ranchland to virtual insurance monopoly. Died 1954, split as-

sets between family trust, charitable foundation; family infighting ensued. Robert bought foundation's 51% Moody National Bank shares 1979; through it controls family trust's 35% ANI, etc. Brother Shearn awaiting sentencing for defrauding family trust. Robert's estimated worth \$550 million.

Alexander Gus Spanos

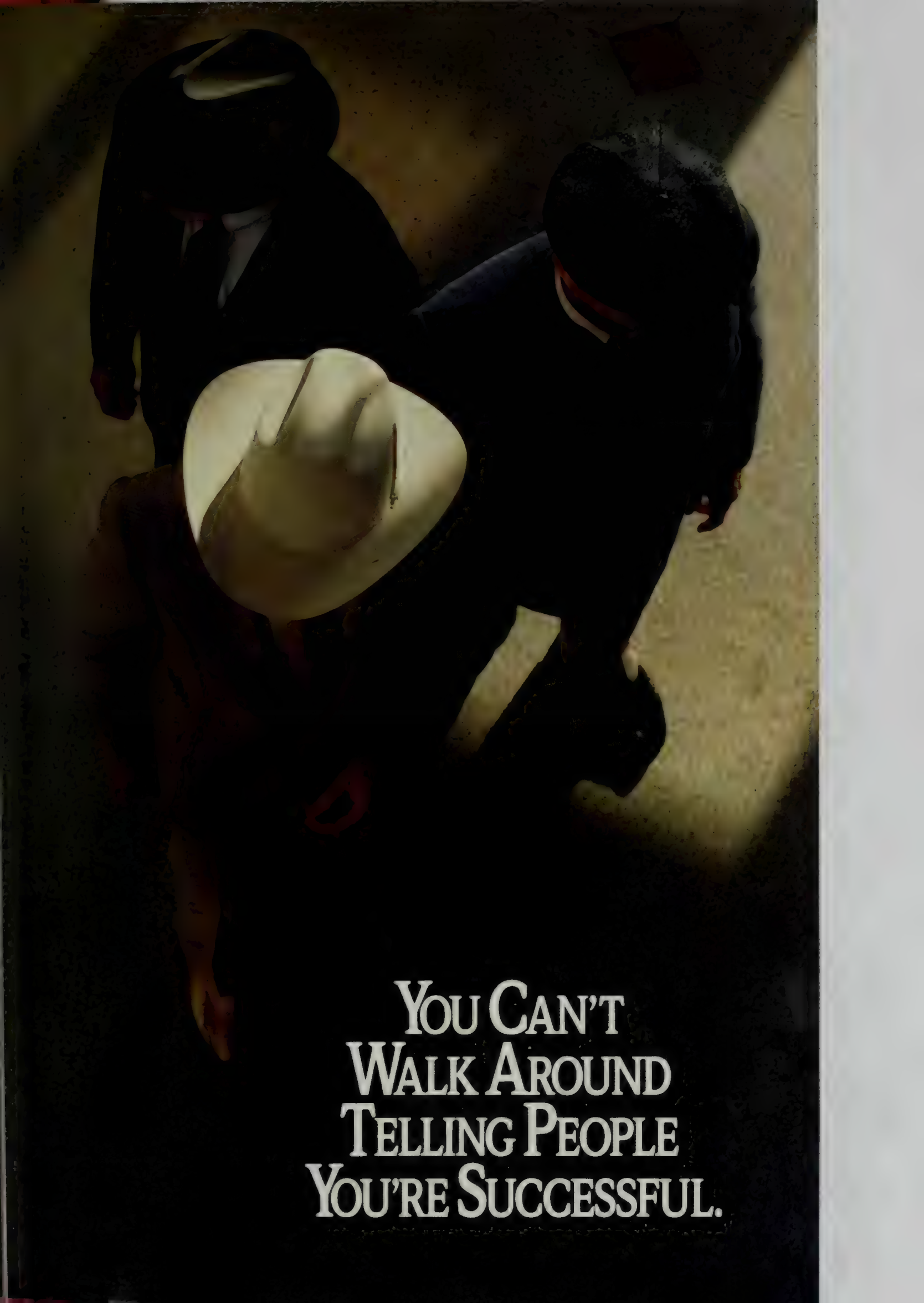
Real estate. Stockton, Calif. 65. Married, 4 children. Left father's bakery 1956 to sell sandwiches to migrant farm workers. Built first apartment complex 1960. A.G. Spanos Construction (revenues \$345 million) went on to build 60,000 apts. across Sunbelt. Logs 6,000 miles weekly on private jets; 2 sons, 2 sons-in-law in business. Famous for dance routine with golf buddy Bob Hope, performed at benefits. Owns 1,600 prize Stockton acres, recently rezoned for development; 62% San Diego (football) Chargers. Joined raider Paul Bilzerian, Ed DeBartolo (*which see*) took over Singer 1988. "I love the acquisition business." Net worth believed to exceed \$550 million.

Frank Batten

Media. Virginia Beach, Va. 61. Married, 3 children. Uncle Samuel Slover arrived Va. 1900, was offered interest in ailing Va. paper if he halted red ink; did so in one year. Raised by uncle, Harvard M.B.A. Frank became publisher 1954. From one paper (flagship now Norfolk *Virginia-Pilot/Ledger-Star*), aggressively built Landmark Communications: first cable franchise 1963 (now 533,000 subscribers), 10 dailies, 29 weeklies, 2 tv, 2 radio stations. Frank: "It was no big deal." Started Weather Channel with meteorologist John Coleman 1982; bought Coleman out, now very profitable. Bought distant family shares 1986. Frank's 38% worth over \$550 million.

Charles Francis Dolan

Cable television. Oyster Bay, N.Y. 62. Married, 6 children. Raised in Cleveland, earned \$2/week writing Boy Scout column for local paper.



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Came to New York 1952, made industrial films. Saw cable TV's growth potential, began wiring NYC hotels 1960; won Manhattan franchise 1965. Realized need for exclusive programming, created Home Box Office; sold to Time Inc. 1973. Critics say sold too soon; undaunted, built up Cablevision Systems, now nearly 1 million subscribers; also SportsChannel, American Movie Classics. "The industry pays a lot of homage to him." Avid sailor, tennis buff, "Dennis-the-Menace looks." His 66% Cablevision, other interests worth \$550 million.

Melvin Simon

Herbert Simon

Shopping Centers. Indianapolis, NYC, Beverly Hills. Mel: 61. Herb: 53. Both divorced, remarried; 5 children each. Brooklyn-born sons of Manhattan tailor; both attended City College of New York. Mel sold encyclopedias in Indianapolis to supplement Army pay; later took \$100/week job leasing retail space. Herb joined him, formed Melvin Simon & Associates to build shopping centers 1960; "Marx Brothers" of malls now nation's second-largest mall developer with 56 million sq. ft., another 13 million managed. Building massive Newport project in N.J. with Sam LeFrak (*which see*); Mel: "The chance to build a city is not often available in the 20th century." Also developing NYC Gimbel's site with Larry Silverstein (*which see*). Mel turned Hollywood movie mogul 1970s; produced *Love at First Bite*, *Porky's*. "No more scripts. Please don't send me any more scripts." Rescued ailing Indiana (basketball) Pacers 1983: "It was a gift to the town." Mel has $\frac{2}{3}$, Herb $\frac{1}{3}$ of fortune worth at least \$800 million. "It would be hard to find two sweeter guys on the face of the earth."

Paul Gardner Allen

Microsoft. Bellevue, Wash. 35. Single. Attended Seattle prep school with boyhood friend William Gates (*which see*). First joint venture: microcomputer to determine traffic patterns. Cofounded Microsoft



13 members of The Forbes Four Hundred are Texas oilmen.

1974; Now nation's largest computer software seller. Left 1983, beat Hodgkin's disease with radiation therapy; founded software startup Asymetrix Corp. 1985. "I felt like having my own operation." Hoops nut: Bought pro basketball's Portland Trail Blazers for estimated \$70 million 1988; keeps in shape with own backyard court. Sails 25-foot cruiser, plays guitar. Stock, etc. worth at least \$540 million.

*Robert Edward
(Ted) Turner III*

Turner Broadcasting System. Roswell, Ga. 49. Divorced once (2 children); separated (3 more children). Saved late father's billboard company; started superstation WTBS Atlanta 1976, cable news channel CNN 1980. Pursued CBS; failed, bought \$1.4 billion MGM film library 1986. Trimming debt; accepted investment by major cable operators 1987, sold \$150 million preferred CNN stock 1988 (now has 66% voting control). Launched movie channel TNT Oct. Sold 3.5 million shares for ongoing divorce settlement 1988. Settled charges for bringing nonnative wildlife onto Florida estate with donation to animal groups. Walls closing in? TBS stock worth \$535 million.

Edward Crosby Johnson III

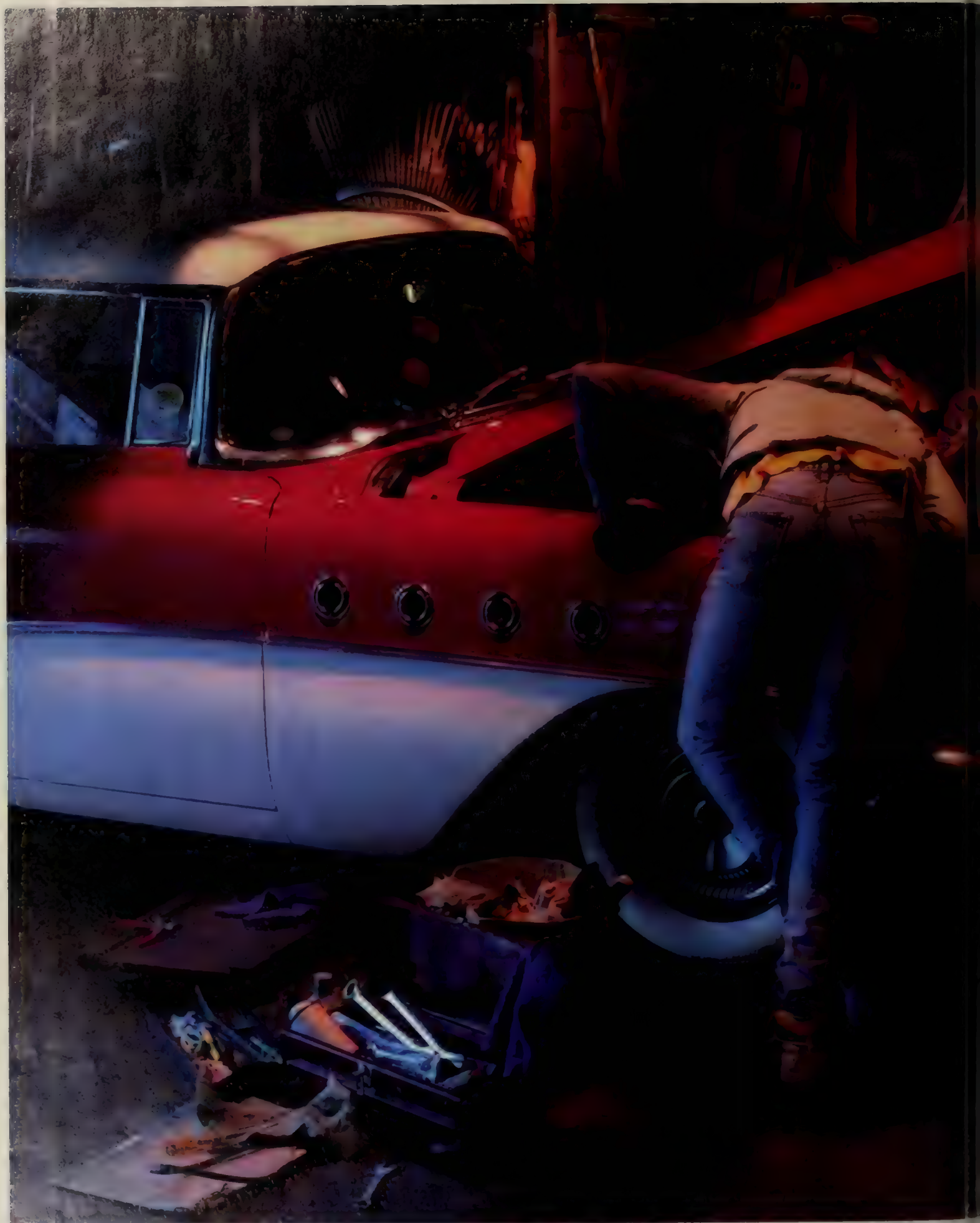
Money management. Boston. 58. Married, 3 children. Father, Brahmin lawyer Edward II, bought ailing Fidelity Management 1946, built into major mutual fund manager. "The market is like a beautiful woman, always fascinating, always mystifying." Son "Ned" CEO 1972; assets \$4 billion. Where father was excellent stock picker, son is master marketer: direct mail, 24-hour phone line; clever creator new funds. Positioned perfectly for bull market 1980s. Now manages \$75 billion in 170 funds, including \$8.8 billion flagship Magellan Fund. Entrepreneurial: started limousine, head-hunting, computer businesses. His direct 47% Fidelity, investments worth over \$530 million.

Robert Staples Howard

Publishing. Rancho Santa Fe, Calif. 64. Married, 4 children. U. of Minnesota dropout. After WWII service inherited hometown (Wheaton, Minn.) newspaper: "I swept the floors, melted lead, sold ads, wrote stories . . . you name it." Founded Howard Publications 1961; gradually built into 19 dailies, over 450,000 subscribers. Unassuming (Hammond Indiana *Times* is flagship) but profitable chain appreciating greatly in acquisitive newspaper climate. Sold Buffalo TV station to King World for \$100 million 1988. Also, late entry into cable with Don Reynolds (*which see*), now 140,000 subscribers. Fortune estimated \$530 million.

Richard Mellon Scaife

Inheritance, publishing. Shadyside, Pa. (Pittsburgh). 56. Separated, 2 children. Great-grandson of Judge Thomas Mellon. Under Scaife Newspapers, runs several smallish papers (after selling 2 to Thomson Group 1985), which promulgate his conservative ideology. Dislikes publicity, refuses to use middle name (thought father Alan Scaife treated shabbily by Mellons). Still most prominent Mellon of his generation. Long estranged from sister Cordelia Scaife May (*which see*). Generous contributor to right-wing





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The Forbes Four Hundred

leaders, think tanks. Vigorously denies estimate but worth believed to exceed \$525 million.

Charles Cassius Gates

Gates Corp. Denver. 67. Married, 2 children. Father went West to prospect for gold 1904; settled in Denver, bought tire-cover business 1910. Persuaded brother to join co. after near failure 1911. Expanded into rubber tires, hoses; invented V-belt 1917. Son Charles born in back of family car en route to hospital, inherited co. with 4 sisters 1961. Dumped tire works 1974; not so successful diversification into ranching, egg farms, trucking, real estate, etc. Bailed out failing Learjet Industries 1967, sold for \$63 million 1987. Major subsidiaries: rubber, energy products, auto interiors. Controls firm, real estate worth over \$500 million.

John Murdoch Harbert III

Construction, investments. Birmingham, Ala. 66. Married, 3 children. Lucky streak shooting craps on ship home from WWII, won \$6,000 grubstake; tried taxidermy,



**16 members of
The Forbes Four Hundred
have fortunes derived
principally from
agriculture.
(In 1987, 18.)**

then bought concrete mixer, tools. Went broke 3 times first 20 years: "Our statements were not worth the paper they were typed on." Got local bridge contract; then highways, pipelines, buildings. Today Harbert Corp. revenues estimated over \$500 million. Minor partner with T. Boone Pickens in failed 1986 Diamond Shamrock takeover. Directorships on Enron, etc. With 75% Harbert Corp., \$380 million in Amoco stock, other assets, worth \$500 million.

Wallace Henry Coulter

Blood. Hialeah, Fla. 71. Single. Born Ark., dropped out Georgia Tech 1932. With cellophane, rubber bands, sewing needle developed "Coulter Principle," 1949, in Chicago basement: electronic method of counting microscopic particles. Produced Coulter Counter, blood cell counting machine, 1953. Coulter Electronics now holds over 350 U.S. patents; intensely private, estimated sales \$500 million, "leadership position worldwide" in automated blood cell counters (85% of U.S. hospitals), other health care instruments. Wally hands-on chairman, received John Scott Award 1960 (past winners: Marie Curie, Jonas Salk); brother Joe president. High-margin, dominant company worth at least \$500 million.

Daniel Mauck Galbreath

Real estate. Columbus, Ohio. 60. Separated, 3 children. Father John W. from Ohio farm; joined college frat buddy in real estate venture 1920; during Depression bought out foreclosed properties, resold to owners in better times. Invented "package deals": take tenant, builder, blueprints to bank for financing. Built then-largest privately financed condo project in Hong Kong 1966; grossed \$400 million when sold out 1980. John died July 1988. Dan president since 1980 Galbreath-Ruffin, J.W. Galbreath & Co.: manages over 31 million sq. ft. office space (equity in some 8 million sq. ft.). Big Manhattan project: Saks Tower; also projects 15 U.S. cities. Owns Darby Dan stables. Net worth estimated \$500 million.

William Walter Caruth Jr.

Inheritance. Dallas and Crystal River, Fla. 76. Married, 4 children. Grandfather William came to N. Texas 1848; with brother, \$1,000 seed money, started general store. With profits, bought land at \$5, \$10 an acre; by early 1900s Dallas County's largest landowner (some 30,000 acres). Three generations,



**21 members of The
Forbes Four Hundred have
fortunes derived principally
from retailing.
(In 1987, 18.)**

three phases: "Grandfather acquired the land, father held, and I harvested." Most now liquidated; some small projects with Trammell Crow (*which see*): "Trammell and I have had a lot of fun together." Also Fla. ranches, hotel; huge stock, bond portfolio. "I don't owe anybody a dime, except for the phone bill." Phone co. safe: trusts worth at least \$500 million.

Howard Kaskel

Real estate. NYC. 51. Married, 6 children. Father Alfred (d. 1968) built Doral Hotel & Country Club Miami 1960; bought 4 rundown NYC hotels early 1960s. Now 8-hotel, 3,000-room, glitzy Doral chain, named for Howard's parents, Doris and Alfred. Howard also heads Carol Management Co.: apts. in NYC's Queens, Manhattan, Park Avenue office building, etc. Paid \$60 million for Westchester coun-

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ty, N.Y. hotel/convention center 1987; refurbishing NYC hotels. Took on Wall St. 1987, lost: take-over bid failed, sold his 11% Kansas City Southern 1988 for no gain. Colleague: "He doesn't have the personality of a raider." Hotels, etc. worth at least \$500 million.

Peter Stephen Kalikow

Real estate, NYC. 45. Married, 2 children. Grandfather Joe built apts. Queens, Brooklyn, Bronx 1920s-30s; father Harold split from brothers 1968 to form H.J. Kalikow & Co. Peter took over 1973, built Manhattan apts.; now owns 6,000 apts., office space. Built risky 101 Park Ave. office tower 1982 for \$160 million; worth over \$400 million today. Also owns 195 Broadway; planning 500,000-sq.-ft. tower behind it. No partners: "I've had only one partner in my life and that was my father." With \$24 million in union concessions, paid \$37.5 million for money-losing *New York Post* 1988. "The more people tell me not to do something the more I want to do it." Worth at least \$500 million.



**Three members of
The Forbes Four Hundred
have been honored
with stars along
Hollywood's Walk of
Fame for their
contributions to the
entertainment industry:**
Gene Autry
Merv Griffin
Mark Goodson

William Morse Davidson

Guardian Industries Corp. Bloomfield Hills, Mich. 65. Thrice divorced, 2 children. Practiced law, took over uncle's interest in Guardian, then a failing windshield fabricator. Took public 1968. Now fourth-largest U.S. glass manufacturer; 15% of flat glass market, 8% automotive. Took private 1985 in \$500 million LBO. Anti-union. Lost appeal patent infringement lawsuit; competitor wants \$100 million in damages. Owns 57% of Detroit (basketball) Pistons. Fed up with scheduling at Pontiac Silverdome, built team a \$70 million arena. Also bought team \$2 million jet. With substantial interests Spain, etc., company now believed worth some \$500 million.

Harold Brown

Real estate. Boston. 63. Divorced, 3 children. Son of poor Russian immigrant; Hal played clarinet, sax for \$2 a gig. MIT 1947, studied metallurgy: "It was the field with the lowest unemployment and the highest wages." But after WWII, started doughnut chain. To Korea 1950: "I was very upset when they called me back into the service." As sideline, bought 6-unit apt. building 1956; discovered real estate. By 1970s heavy apt. buyer (some for \$2,000 per unit): "I had to either quit my job or sell my real estate." His Hamilton Realty Co. now 6,000 apts., 9.2 million sq. ft. commercial space in Boston area. Building nonprofit day care centers. Worth at least \$500 million. Beats metallurgists' wages.

Roy Edward Disney

Walt Disney Co. Los Angeles. 58. Married, 4 children. Father Roy O., famous uncle Walt started Disney Productions 1923. Roy E. worked in studios as cameraman, film editor for 23 years, quit after bitter fight for creative control. Returned 1984 as vice chairman, reemphasized animated movies. "I like to think that I'm in the middle of the company's renaissance." Also Shamrock Holdings: 3 tv and 14 radio stations, ranching properties, other compa-



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nies; unfriendly bid this year for Polaroid. Avid sailboat racer. His 2.5% Disney, Shamrock, etc. worth \$500 million. Wife: "When he wears a suit to the office, his secretary asks him who died."

Laszlo Vidor Tauber

Real estate. Potomac, Md. 73. Divorced, remarried; 2 children. Born Budapest; champion Hungarian gymnast. Hungarian med school 1938: "Since the day my consciousness began I've wanted to be in medicine." Survived Nazi labor camps; escaped on second try 1944: "I just walked away one day." To U.S. 1947; built first apt. project 1951 on vacant lot bought for \$9,500. Built own hospital 1965; bldgs. for govt. offices 1960s (Uncle Sam's biggest landlord). With choice NYC bldgs. now almost 8 million sq. ft. Still spends hours in surgery. "I devote 10% of my time to real estate, but 90% of my income comes from it." Lucrative sideline est. worth \$500 million.

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Million
or
More

John Thomas Lupton

Elizabeth Lupton Davenport

Brother and sister. Coca-Cola bottling. Grandfather John T. got right to distribute Coca-Cola 1899. Used portion of patent medicine fortune to finance first Coke bottling plants (d. 1933). Father Thomas Cartter took over; bought, sold Coke franchises at frantic pace. John: Chatta-

Malcolm Stevenson Forbes

Inheritance. Publishing. Far Hills, N.J. 69. Divorced, 5 children. Father B.C., Scottish immigrant 1904, launched FORBES magazine 1917. Sons inherited 1954: Bruce died 1964, MSF eventually sole stockholder. N.J. state senator, gubernatorial candidate 1957. Enormous growth from 1960s; now top business publication, unusually profitable. Bought *American Heritage* for reported \$10 million 1986; ad revenues up 386%. Bought Somerset Press (10 N.J. weeklies) for reported \$6 million 1987. Owns 400-sq.-mile Colorado ranch, South Sea island, Tangier palace, French chateau, London mansion;

among several hundred Fabergé pieces are dozen Imperial eggs—2 more than Kremlin; also presidential letters, toy soldiers, toy boats, etc., etc. Author 6 books and Capitalist Tool fortune cookies. Latest, *They Went That-a-Way*, strong seller. Balloonist (set 6 official records); twelve private friendship balloon/motorcycle trips: Russia, Pakistan, Japan, Thailand, China, Egypt, etc. Scheduled successor: MSF Jr. Son Tim heads *American Heritage*.

Reputed net worth:

London Daily Mail: £400 million.

N.Y. Daily News: Billionaire.

N.Y. Newsday: \$400 million to \$700 million.

nooga, Tenn. 62. Married, 4 children. Enlisted Navy, 1944; assigned to PT boat. "Jack" joined business as bottle washer; took over at father's death, 1977. JTL largest bottler in U.S. at time of sale to Coca-Cola 1986 for \$1.4 billion. "The timing was right for this." John's timing, 60% JTL netted him some \$480 million. Main force behind RiverCity Co., estimated \$750 million revamping of river area in Chattanooga. Elizabeth (Mrs. Rodolph) Davenport: Lookout Mountain, Tenn. 55. Divorced, remarried; 3 children. Approximately 40% of father's trust believed hers. Her share JTL proceeds believed \$285 million.

Oakleigh Blakeman Thorne

Commerce Clearing House. Millbrook, N.Y. 56. Divorced, remarried; 3 sons, 1 daughter. B.A. Harvard, 1954. Quaker great-grandfather Oakleigh Thorne bought CCH 1907, six years before income tax enacted. Publishes updated tax and business law information, provides corp. services. Long largest publisher of tax guides for lawyers, accountants; explains tax laws in plain English. IRS primary subscriber. Acquired McCord Co., public-record information service, 1988. Chairman Oakleigh detached from corp. lives on 600-acre farm "Thorn-
dale," upstate N.Y., raises Thor-

oughbreds, orchids. Son Oakleigh M.B.A. 1986 Columbia, aspiring chief executive. Oakleigh's 46%, etc. worth \$480 million.

Thomas Stephen Monaghan

Pizza. Ann Arbor, Mich. 51. Married, 4 daughters. Fatherless at 4, raised in orphanages. Thrown out of seminary for misconduct; joined Marines. In 1960 bought pizza parlor in Ypsilanti, Mich. with brother, \$500 loan. One year later swapped VW for brother's share. Today Domino's over 4,600 stores, second only to Pizza Hut; system-wide sales nearly \$2 billion. Owns Detroit Tigers, estimated at \$70 million. Largest collection Frank Lloyd Wright furniture. Antique car collection. \$150 million Domino's Farms based on Wright design: working farm, museum, headquarters for pizza company. His 97% of Domino's Pizza, Inc., plus assorted valuables, worth about \$480 million.

William Alvin (Tex.) Moncrief Jr.

Oil & gas. Fort Worth. 68. Married, 4 sons. Son of legendary W.A. (Monty) Moncrief, Texas-born, Okla.-bred wildcatter; hit first big well in East Texas 1931 after 4 years of dry holes; built oil empire



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**87 members of
The Forbes Four Hundred
have fortunes derived
principally from
real estate.
(In 1987, 73.)**

from East Texas to Gulf of Suez; died 1986 at 90. Tex now runs father's estate, own operations; surpassed father's wealth with June 1988 bonanza: struck "awesome" Wyoming gas well; reserves estimated at 1 trillion cubic ft. Also oil, gas in Texas, N.M., La. and Fla.; several "little" ranches wherever he has oil. Summer: retreats to Colorado ranch to work cattle, dig postholes. Controls fortune worth at least \$475 million. "I'm glad I made a little money."

Sheldon Henry Solow

Real estate. NYC. 60. Married, 1 child. Small-time builder sank everything into landmark Manhattan skyscraper 1972. "We're in barracuda land. You can only get away with this once." Scrapped original plan to build apts.; Solow Building (née Avon Building, 9 W. 57th St.) now 1.4 million sq. ft. prime midtown office space. Gets premium rents for Central Park views; worth at least \$500 million. Catchy archi-

tecture: sloping glass sides; marked in front with giant red "9" sculpture. Owns many high-end Manhattan apts., including city's most expensive rental building (up to \$15,000/mo.). Litigious. Net of debt, worth over \$475 million.

Roy Hampton Park

Media. Ithaca, N.Y. 78. Married, 2 children. N.C. farm boy. Entered N.C. State at 15; AP stringer (\$18 a week), ran college paper. After p.r. stint, bought Ithaca ad agency 1942. Ran Thomas Dewey ad campaign: "If he'd won, I'd be a happy retired bureaucrat." Convinced food writer Duncan Hines to lend name to cake mix outfit 1947: "I had the only walking, talking trademark in the world." Sold Hines-Park Foods to Procter & Gamble 1956 for stock. Bought N.C. tv station 1962, now has 7 tv, 19 radio stations, 124 publications. Wears gold watch on each wrist; wife raises peacocks. His 89% Park Communications, real estate worth \$475 million.

Marshall Field V

Frederick (Ted) Woodruff Field

Half brothers. Inheritance, media. Original Marshall Field started as Chicago store clerk; scrimped pennies, went into drygoods biz with two partners 1865 (later bought them out). Built Marshall Field & Co. into world's largest dept. store, left all in trust to 2 grandsons. Grandson Marshall III sold store 1941; bought *Chicago Sun*, added *Times* 1941, later tv, cable. Field Enterprises inherited by Marshall IV (d. 1965, age 49). Marshall V joined *Sun-Times* after Harvard, publisher age 28. Conflict with incompatible half brother Ted ended in liquidation 1983. Marshall: Lake Forest, Ill. 47. Divorced, remarried; 4 children. Bought Ted's share of real estate firm Cabot, Cabot & Forbes; later bought Pioneer Press (suburban newspapers), Xerox educational publications, Muzak; recently added F&W's encyclopedias. Ted: Beverly Hills. 36. Divorced twice, remarried; 3 children. Raised in Alaska by mother (editor of *Chris-*

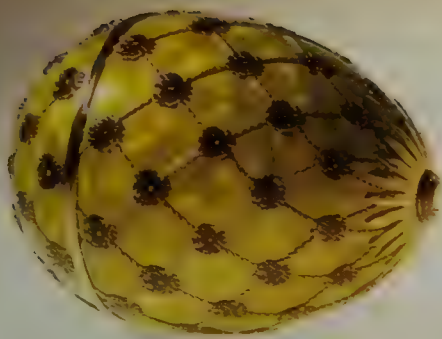
tian Science Monitor). Fling with racing cars; now produces movies as Interscope (*Three Men and a Baby*, *Cocktail*). Knack for turning big profits: bought Panavision for \$20 million 1985, realized \$80 million 1987. Also trades commodities, develops real estate. Est. net worths: Marshall, at least \$425 million; Ted, at least \$470 million.

Norton Clapp

Inheritance. Seattle. 82. Twice divorced, widowed, remarried; 6 sons (3 deceased), 5 stepchildren. Maternal grandfather Matthew G. Norton founded lumber company Laird Norton with brother and Laird family; early Weyerhaeuser investors. Father married, in succession, both Norton daughters; Norton Clapp double-dipper heir, was largest single Weyerhaeuser shareholder. Law degree 1928; enlisted Navy 1942. Pres. Weyerhaeuser 1960-66, chairman to 1976. Stepson Booth Gardner Wash. governor. Reclusive, widely regarded as Northwest power, controls investments in real estate, lumber, etc. worth some \$465 million; shares trusts worth over \$800 million with 200 Laird, Norton relations.



**27 members of
The Forbes Four Hundred
have fortunes derived
principally from
New York City real estate.
(In 1987, 28.)**



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Barbara Piasecka Johnson

Princeton, N.J. 51. Widowed, no children. Third wife John Seward Johnson (d. 1983; heir with brother Robert Wood Johnson to J&J fortune). Claims art history M.A., Wroclaw U.; fled Poland, arrived U.S. 1968 with \$100. Upstairs chambermaid on Johnson's estate; married him 3 years later. Built \$30 million, 160-acre "Jasna Polana" (like Tolstoy's estate) in Princeton late 1970s, complete with air-conditioned doghouse. Vast Old Masters collection; Greek, Roman sculpture. Soap-opera court battle with Johnson's children; "Basia's" winnings now worth over \$465 million; already wealthy children (*see family*) got \$42 million. "Money is to spend; it does not have any value otherwise."

Gordon Peter Getty

Inheritance. San Francisco. 54. Married, 4 sons. Son of oil tycoon Jean Paul Getty. "Gordo" tried

hand at Getty Oil's Middle Eastern operations; quit 1959 to study opera at San Francisco's Conservatoire of Music. Sued father 1966 for unpaid dividends from family trust; lost. Only relative at father's deathbed 1976; named executor of trust. Tried to head Getty Oil but board hostile; sale of family's 40% to Texaco 1984 sparked Texaco-Pennzoil debacle. Relatives sued Gordon over trust; \$3 billion in T bills tied up in litigation ever since (*see Getty family*). Gordon removed as trustee; composes operas. His trust income, prudently invested, should be worth \$450 million; his estimated share of principal, if ever distributed: \$750 million.

Morton K. Blaustein

Ruth Blaustein Rosenberg

Louis Thalheimer

Inheritance. Baltimore. Heirs of Lithuanian immigrant Louis Blaustein (1869-1937), who invented forerunner of modern tank car, and

only son, Jacob (d. 1970), developed metered gas pump, drive-in stations, antiknock gasoline. Jacob founded American Oil 1910, merged into Standard Oil of Indiana for 5.25 million shares (now over 8 million); also part-time diplomat: convinced U.N. conferees to accept human rights provision 1945. Jacob's son Morton: 61. Twice divorced, remarried; 2 daughters. Geologist, chairman of family's American Trading & Production Corp. (oil & gas, real estate, tankers, manufacturing, investments). Active American Jewish Committee, rarely seen at public affairs. His stake, plus over half Atapco, worth at least \$440 million. Jacob's sister Ruth: 89. Widowed, 3 children. Director; her interest worth estimated \$250 million. Only son, Henry Jr. (CEO family-controlled Crown Central Petroleum), votes most shares. Considered astute businessman, active civic affairs, trustee Johns Hopkins. Louis (grandson of Jacob's deceased second sister): 44. Married, 3 children. Sports aficionado. President Atapco. Controls interest worth at least \$250 million.

BUYING A BUSINESS JET IS



The Forbes Four Hundred

Estée Lauder

Leonard Alan Lauder

Ronald Steven Lauder

Mother, 2 sons. Cosmetics. NYC and the Hamptons. Estée: 80. Widowed. Born NYC's Queens as Josephine Esther Mentzer to Hungarian immigrant parents. Peddled skin creams for uncle, later went out on own, attached Estée Lauder name to several products. Summer resort romance led to marriage to Joseph Lauder (d. 1983). By 1960 sales over \$1 million (mostly Youth Dew fragrance). "Sees" fragrances; also uncanny sixth sense for consumer trends. Today one of world's largest cosmetics companies. Estée, Clinique, Prescriptives, Aramis cosmetic lines sold only through upscale department, specialty stores. Not involved in day-to-day operations, but still reigning queen of cosmetics world. Leonard: 55. Married, 2 sons. Current CEO; now credited with company's huge financial growth. Ronald: 44. Married, 2

daughters. Ran foreign operations. Political aspirations spurred 1983 exit to become deputy assistant defense secretary (NATO), U.S. ambassador to Austria (1986-87); heads Ronald S. Lauder Foundation, which aids Eastern European Jews, also oversees Lauder Investments, Inc.; still company director. Family shares company worth well over \$1.35 billion.

Cordelia Scaife May

Inheritance. Ligonier, Pa. 60. Divorced, widowed; no children. Great-granddaughter of Judge Thomas Mellon. Brief marriage 1950. Wed 1973 to longtime friend Robert Duggan, Pittsburgh D.A.; he died of gunshot wound 1974 amid corruption investigation. Brother Richard Mellon Scaife (*which see*) has not spoken to her since. Endowed Laurel Foundation to support education, population control, other liberal causes. Maintains family tradition (Mellon fortune built on 19th-century venture capital) in small way, funding emerging

companies through Roldiva Inc. Net worth (much in trusts) over \$450 million. (*See also other Mellons, Currier family.*)

Fitz Eugene Dixon Jr.

Inheritance. Lafayette Hill, Pa.; Palm Beach, Fla. 65. Married; son, daughter. Primary heir to fortunes of two great-grandfathers: streetcar magnate P.A.B. Widener (d. 1915; reported worth \$100 million); William Elkins (d. 1903; investor in Widener, utilities, Standard Oil; reputedly left \$30 million). Freshman dropout Harvard, taught 16 years—"happiest days of my life"—at his Main Line prep school, Episcopal Academy. Now philanthropist; fortune mostly blue-chip stocks, high-grade bonds. Owns most of Grindstone Neck, Me., faded resort where he was born. Bought house for \$75,000, found original Audubon prints worth \$200,000-plus. Once owned Phil. (basketball) 76ers, now over 10% (baseball) Phillies. Estimated worth: over \$450 million.

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The Forbes Four Hundred



**75 members of
The Forbes Four Hundred
have fortunes derived
principally from
manufacturing.
(In 1987, 84.)**

Seymour Cohn

Real estate. Upper Brookville, N.Y. 77. Widowed, 2 children. German great-grandparents emigrated NYC 1860s, real estate became family calling. Seymour dropped out of Rutgers to join family firm 1931. Persuaded kid brother Sylvan Lawrence to join 1946. Seymour: "The older ones gotta take care of the young. That's the way we were brought up." Bought first building 1947 for \$135,000; at peak, as Sylvan Lawrence Co., lower NYC's biggest commercial landlord. Since Sylvan's death 1981, sold \$600 million of properties. Seymour's half of fortune worth \$450 million. "It was an empire—tremendous, modern empire."

Herbert A. Goldfarb

Inheritance, investments. Naples, Fla. 41. Single. Grandfather Barron Gift Collier parlayed Memphis trol-

ley car ad business into land; at peak owned 1.3 million acres S. Florida (d. 1939). Miles, after Columbia U. M.B.A. 1973, liked venture capital; by coin toss, family split land empire 1980 after strategy spat (see family). "Everyone was numb, but it had to be done." His Collier Enterprises: 77,000 acres, 2,800 acres Naples, oil; active developer. Into Egyptian art; races, restores classic Porsches. Worth at least \$450 million, not counting unknown venture capital. "I know just enough about all kinds of things to be dangerous at all of them."

Sigfried Weis

Robert Freeman Weis

Cousins. Weis Markets, Inc. Sigfried: Lewisburg, Pa. 72. Robert: Sunbury, Pa. 69. Both married, 3 children each. Their fathers opened little grocery store, Sunbury, 1912. Now 116 stores mostly in Pa. Key: vertical integration—"We're very self-contained." Have own dairy, construction workers, architects, trucking fleet; make 1,500 private-label products for own stores. Also Amity House family-style restaurants (ice cream, sandwiches). Family ownership leads to high returns: "When we expand in one direction or another, we're gambling with our own money." Zero debt. Sig, pres., studied at Andover, Yale; enjoys philanthropy, traveling; owns 33% Weis stock worth \$450 million. Robert, vp, owns 28% worth \$380 million; his sister, Ellen, another \$116 million.

W. Larry Lawrence

Real estate. San Diego. 62. Twice divorced, remarried; 3 children. Raised Depression-era Chicago's North Side; Merchant Marines, U. of Ariz. Earned \$2,200/year playing pro football for Chicago Cardinals (now in Phoenix); after Chicago odd jobs, moved to Calif. 1953. Built low-income housing, offices, warehouses, etc.; bought San Diego's grand oceanfront Hotel del Coronado for \$10 million 1963. Now worth at least \$400 million. "I fell in love when I first set eyes on her." \$1.2 billion offer for Copley Press rejected 1988: "I'm a patient man."

Big giver education; heavy-checkbook liberal Democrat: "I admit to it." Worth at least \$450 million.

William Russell Kelly

Kelly Services. Fort Lauderdale. 82. Married, 1 son. Father international oil pioneer, died 1928 leaving no estate, 7 children. Russell dropped out of U. of Pittsburgh, became car salesman. Army fiscal analyst WWII, saw new business machines, realized need for operators. Opened Russell Kelly Office Services in Detroit 1946. First sent machines and girls to clients' offices. When clients bought own machines, still needed people trained to use them. "It just seemed to be a natural development . . . to send out the girls and forget about the machines." Brother Richard joined 1955. Went public 1962, now more than 800 offices nationwide. Stepson, Terence Adderley, pres. and CEO. Stock worth \$450 million.

Ralph Lauren

Apparel. NYC, Westchester, N.Y. et al. 49. Married, 3 children. Born Bronx, NY, to Russian immigrant mural/house painter. Quit CCNY; first sales job Brooks Brothers. Hit big 1960s: wide, colorful ties. "I



**The average estimated
net worth of members of
The Forbes Four Hundred
who are known to have
graduated from a college
or university is at least
\$614 million.
The average for those
who never attended
college: \$511 million.**

Direction.



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The Forbes Four Hundred

didn't think I was a designer, but I had ideas." Created Polo Inc. 1967; dressed Robert Redford (*The Great Gatsby*); Diane Keaton (*Annie Hall*) 1970s; got big on preppie look; "instant classic" Old World styles grossed \$2 billion 1988 despite sluggish industry. Jets family among several homes. His 90% Polo, etc. worth at least \$450 million. Lauren: "To have a strong concept and point of view that you believe in and stand by."

Richard E. Jacobs

David H. Jacobs

Brothers. Shopping centers. Dick: Lakewood, Ohio; NYC. 63. Divorced, 3 children. Dave: Bay Village, Ohio. 67. Married, 3 children. Father marketed Goodyear dirigibles. Dick and Dave early hustlers: Dick hawked window polish; Dave was a carhop at Chicken Charlie's. After WWII brothers sold real estate; scouted sites for then-fledgling mall developer Edward DeBartolo (*which see*). With partner Dominic Visconsi, built mall Columbus, Ohio 1962; 44 malls later Jacobs Visconsi & Jacobs owned 42 million sq. ft. nationwide. Dick deals, Dave builds; Dick: "We were in the right industry at the right time." Now retired Visconsi mostly bought out. Also Wendy's franchises, Marriott hotels, Cleveland Indians; building 2.5 million sq. ft. Cleveland. Dick and Dave share fortune estimated \$740 million; Dick has larger share. Dick: "I never figured it up. If you saw my desk you'd understand why."

William F. Paley

CBS. NYC and Southampton, N.Y. 87. Divorced, widowed; 4 children, 2 stepchildren. Grandfather: Russian lumber magnate. Father: wealthy Philadelphia lawyer. Graduated Wharton School of Finance 1922; stint in father's co. Bought foundering radio network 1927. Raided NBC for luminous star stable (Jack Benny, Red Skelton, Amos 'n' Andy). Built CBS empire: 1987 revenues \$2.8 billion. Retirement 1983 prompted Lew Wasserman comment: "As long as Bill Paley has breath in his body, he

will be CBS." Apparently so: Paley in 1987 comeback coup with Larry Tisch (*which see*). CBS holdings, art collection, other assets, worth at least \$440 million.

Meshulam Riklis

Finance. Calif., NYC. 64. Divorced, remarried (to actress Pia Zadora); 3 children by first marriage, 2 by second. Born Turkey, landed U.S. 1947. Stockbroker, Minneapolis. Organized investment syndicates. Built own empire by piling debt on debt in nonstop acquisition policy. Dubbed "Meshuggener Reckless" by friends. Companies periodically leveraged to breaking point. "You can name the price if I can name the terms." He even buys debt: \$1.5 billion worth came with recent purchase of E-II; but lure, no doubt, was the \$1.5 billion cash in E-II's



Among graduates of colleges and universities on The Forbes Four Hundred, the most numerous were:

Yale: 24
Harvard: 15
Penn: 10
Princeton: 10
Stanford: 9
Columbia: 9
MIT: 8
NYU: 7

coffers. Now controls billions through his companies. After debt, estimated net worth at least \$440 million.

John Orin Edson

Leisure craft. Seattle. 55. Married, 2 children. Founded Bayliner (powerboats) 1955. Co. was fastest craft on water: Sales, profits doubled in each of last 3 years before sold to Brunswick late 1986. Noncommunicative: Edson says he has no other interests, investments, associations. Maintains 105-ft. yacht; pilots the several planes he owns. Remarkable ability to carry out classic precept: simplification of production in traditionally custom-craft business. Also, simple credo: Success is assured by giving best value to consumer. Proceeds of Bayliner sale conservatively invested. Net worth exceeds \$440 million.

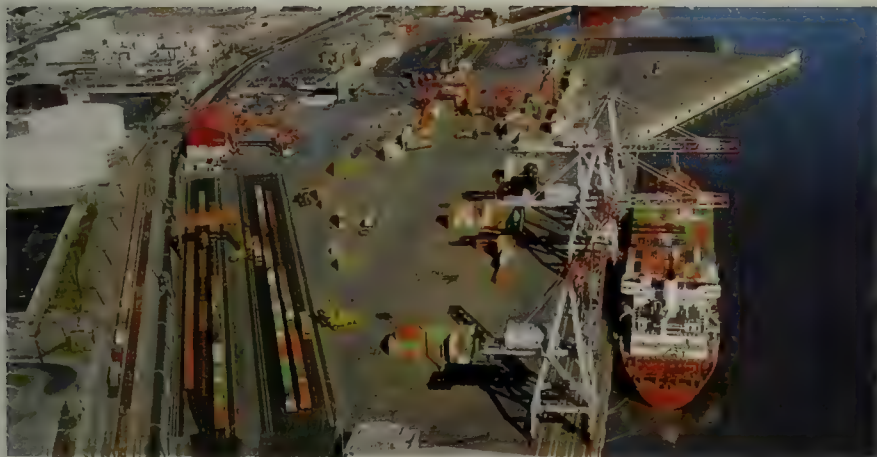
Bob John Magness

Cable tv. Denver. 64. Widowed, 2 sons. Oklahoma-born son of refrigerator salesman worked as roughneck, cottonseed buyer. Got idea to bring tv to rural towns via cable. With late wife Betsy and \$500, laid first system in Texas Panhandle 1956. Followed simple formula: install systems in small towns, depreciate, sell, buy franchises in larger towns. "Old pole climber" formed Tele-Communications Inc. 1968; now nation's biggest cable tv firm, large investments in other operators (has interests in 8.4 million subscribers). Collects Western art. His 10% of TCI and other investments worth over \$435 million.

Stanley Irving Stahl

Real estate. NYC. 64. Divorced, remarried; 1 son, 2 stepchildren. Started as real estate broker 1947. With commissions, bought first Manhattan apartment building a year later "the usual way: I saved." Gambled everything 1962: built 1.76-million-sq.-ft. office tower at 277 Park Avenue. Now Chemical Bank Building, worth minimum \$170 million. Not co-opting his 2,800 Manhattan apartments: "I

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think it's too much of a hassle"; has pieces 6 other NYC office buildings. Won 1977 court ruling denying apt. leases to "intelligent" persons—i.e., would-be tenants who know law and may cause trouble. NYC office space, apts., etc. worth at least \$430 million.

Guilford Glazer

Real estate. Beverly Hills. 67. Divorced, remarried; 2 children. Father ran Knoxville, Tenn. welding shop; after Geo. Wash. U., WWII,



**At least 9 members of
The Forbes Four Hundred
did not finish high school.**

**At least 40
finished high school only.
At least 296 attended college,
of which 242 graduated.**

**Postgraduate degrees:
M.B.A., 46; Law, 16;
Other, 17.**

built Knoxville steel plant; then apt. house for widowed mother 1950. Moved into shopping centers 1950s-60s; built LA's 3-million sq. ft. Del Amo Fashion center 1971 nation's largest mall: "It's like running a city." Tax-assessed value, \$240 million; market value, \$300 million. Guil: "Thank goodness for

Prop. 13." Also Atlanta, Boston, Pittsburgh. Active Jewish causes, building community center in Israel with buddy Armand Hammer; adviser to Israeli prime ministers: "I am close with those fellas." Worth at least \$430 million.

Joseph J. Gruss

Investments, oil. NYC. 85. Widowed; 1 son, 1 daughter. Learned banking from father in eastern Poland. Ownership of New York travel bureau provided entry ticket to U.S. 1939. Spoke no English; formed investment house Gruss & Co. Sank arbitrage, brokerage profits into oil & gas from 1952 with silent partner John Cox (*which see*). Used to beat on office wall to summon accountant. Donated more than \$100 million to Jewish causes: "This is my monument." Son Martin now runs business, recently selling half of oil production, plugging proceeds into stocks (including 10% stake in Chock Full O' Nuts). Worth at least \$420 million.

Neil Gary Bluhm

Judd David Malkin

Partners. Real estate. Chicago. Both live Winnetka, Ill. 50. Married, 3 children each. Grew up together on Chicago's North Side; delivered root beer together, roommates at U. of Illinois. Both CPAs; Toyota distributor Malkin talked successful lawyer Bluhm into syndication business 1968. Judd: "I had to twist his arm to leave." JMB Realty Corp. now controls over \$21 billion in real estate assets; many projects for own account: built Chicago's Water Tower Place, bought Federated Realty Associates. Neil: "We do lots of things besides syndication." Bought Disney's Arvida Corp. for \$400 million 1987; swallowed \$2 billion Canadian giant Cadillac Fairview 1987, Amfac (one of largest Hawaiian landholders) 1988. "A lot of developers are high profile. They can have the glory; we'll take the cash flow." Lost \$17.5 million bid for Chicago (football) Bears stake 1988. Pair's 66% stake JMB, other assets, worth well over \$800 million. Neil: "You'd be safe doubling that."

Lawrence Fisher

Zachary Fisher

Brothers. Real estate. NYC. Larry: 78. Zachary: 77. Both married, 1 child each. Third-generation New York real estate family; as teenagers, Larry and Zach bought Philadelphia bank building 1926. Built apts. in NYC's Queens, 1930s-40s; then Manhattan offices 1960s. Criteria: "Location, location and location." Own several NYC signature buildings: Burlington House, Park Ave. Plaza, Burroughs building; now over 7 million sq. ft. Manhattan office space, most prime. Some projects with erstwhile billionaire Daniel Ludwig (*which see*). Leverage? Larry: "We're very cash leveraged." Active in stock market: run at Disney with Saul Steinberg (*which see*) 1984, pocketed \$30 million profit; considered CBS bid 1985. Larry N.Y. Yankees fanatic, buddies with George Steinbrenner; Zach bankrolled conversion of WW II aircraft carrier *Intrepid* floating museum. Together Larry and Zach worth at least \$800 million. Larry: "When you did your billionaire list, you missed me."

Claude Bernard Pennington

Oil & gas. Baton Rouge, La. 88. Married; 1 son (killed in 1958 oil rig accident). Son of eye & ear doctor, born one year after state's first oil strike. Spent summers roughnecking; joined father's clinic in 1925, but returned to oilfields day after father's death. Worked sandy Tuscaloosa Trend despite dry holes; first big strikes 1952 didn't surprise him: "I just sort of expected them." Major oil companies flocked to field. "Doc" now has interest in at least 100 wells in 7 states; said to have \$70 million in local banks. Interest in nutrition spurred \$125 million donation (in oil, stocks, bonds) to create LSU nutrition center 1983. His net worth believed to exceed \$400 million.

James Emmett Evans

Citrus. Dade City, Fla. and Highlands, N.C. 88. Widowed, remarried, divorced; 2 children. Born

The Forbes Four Hundred

Georgia; sold Fords, threw suitcase into his Model T, headed to Fla. Bought first groves 1920; became mayor Auburndale at age 25. Quit politics 1930, "decided to tend my own business." Business now over 30,000 acres orange, grapefruit grove land in high-demand So. Fla. Strong believer in family business: "My family are my only stockholders." Retreats to N.C. home six months a year; "The Wheel" has played gin rummy with same pals for 40 years. Second marriage lasted 3 months; working on number 3: "I'm always looking." Net worth over \$400 million.

Carl Clement Landegger

George Francis Landegger

NYC, London et al. Sons of Karl F. Landegger, who bought Austrian paper mill 1920s. Fled Hitler 1938, arrived U.S. 1940 with some \$40,000. Purchased Parsons & Whittemore, then small pulp trading firm, now worldwide builder of pulp and paper mills with capacity of 2,400 tons a day. Has built 64 mills in mostly developing and communist countries. Owned by sons since father's death 1976. Also Black Clawson, paper machinery firm with \$200 million in sales. Carl, 58; married, 6 children. Heads U.S. operations; alter ego: archeologist. Discovered pre-Columbian cities, earliest New World wreck



Among The Forbes Four Hundred, August Busch and George Mitchell have the largest number of living children (10).

(16th-century, Bermuda). George, 50; married, 5 children. Runs overseas operations. With pulp industry strongly on upswing, companies believed worth over \$800 million.

William Wrigley

Chewing gum. Lake Geneva, Wis. and Chicago. 55. Twice divorced, remarried; 2 sons, 1 daughter. Grandson of William Wrigley Jr., salesman; arrived Chicago 1891 with \$32. Sold baking soda with premium: free chewing gum. Discovered gum sold better. Pioneered retail incentives for merchants (lamps, scales, razors); one of first to advertise product by brand-name. Introduced Wrigley's Spearmint, Juicy Fruit, Doublemint gums. Now world's largest manufacturer (just under 50% of U.S. market). William ("Basically gum is an adult pacifier") president. Raises Arabian horses. Sold Chicago Cubs 1981 to pay parent's estate taxes. His share Wrigley worth \$400 million.

Walter Herbert Shorenstein

Real estate. San Francisco. 73. Married; 1 daughter, 1 son in business. Son of Long Island clothier, hired on as real estate salesman for Milton Meyer & Co. in San Francisco 1946 after Air Force. Named partner 1951, bought company outright on Meyer's death 1960. SF's "Doyen of Office Landlords"; owns nearly 4.5 million sq. ft. offices, manages another 14 million. Put up only \$2 million in equity to buy \$660 million Bank of America headquarters 1985. Major Democratic fundraiser. Daughter is Broadway producer (*Fences*). Net worth exceeds \$400 million. "If you're going to get an asset, make sure that you have something that other people want."

John Richard Simplot

Meat, potatoes. Boise, Idaho. 79. Divorced, remarried; 4 children. At 14 "Jack" quarreled with Dad, quit 8th grade to raise hogs; moved into potato, onion processing. Supplied GIs with dehydrated spuds WWII; struck gold early 1960s: persuaded



The average number of children among members of The Forbes Four Hundred is 3.1

McDonald's founder Ray Kroc to buy his patented frozen french fries. Private J.R. Simplot Co. now \$1.1 billion (sales) agribusiness giant: food processing, fertilizer, cattle, etc.; "French Fry King" runs 1 billion pounds spuds a year. His \$20 million investment Micron Technology now worth \$100 million. "The only smart thing I've ever done is hang on." After reexamination, Simplot now believed worth at least \$400 million.

Saul Phillip Steinberg

Finance. NYC. 49. Twice divorced, remarried; 6 children. Brooklyn-born son of rubber manufacturer, read financial page for fun, Wharton grad at 19. Founded computer leasing firm with father's \$25,000 1961, took high-flying Leasco public 1965. Acquisition binge: bought control of staid Reliance Insurance 1968; failed run at Chemical Bank 1969 earned fame as enfant terrible. Took Reliance private 1982 for \$550 million; public again 1986. Firms underwriting losses balanced by greenmail (Disney, etc.), sharp investments (Days Inn, Tele-mundo); but crash bludgeoned stock, lost 50% value. With investments, art, real estate, still believed worth over \$400 million.

Leon Hess

Amerada Hess Corp. NYC and Deal, N.J. 74. Married, 3 children. Father came from Lithuania 1904;

The Forbes Four Hundred

started small N.J. fuel delivery firm. Went broke 1933, reorganized with Leon (age 18) at helm. Saw potential in tarry residual oil; built truck fleet to deliver while still hot (hence pourable). Pursued federal oil contracts, entered storage business, 1938. Later exploration, refining, retailing. Merged with Amerada Corp. 1969; now \$4.7 billion (sales) oil Goliath. Son John, vp, groomed to take over, but Hess still rules. "As long as I live, have my health and can justify my existence, I expect to stay." With A-H stock and New York (football) Jets, worth at least \$400 million.

Malcolm Austin Borg

Publishing, TV. Englewood and Spring Lake, N.J. 50. Married, 3 children. Wall St. stockbroker grandfather bought into Bergen County (N.J.) *Record* 1922; wholly owned since 1930. From small county daily to suburban powerhouse (Sunday circ. 230,000); wildly profitable. Malcolm took over 1971, bought out brother 1982. Macromedia Inc. now 4 TV stations, 2 newspapers: Woodbridge (N.J.) *News-Tribune* (circ. 52,000). Has 10 TV sets at home, got first VCR last X-mas. Son John, 26, works for *USA Today*. Tried to move WWII submarine museum berthed on his property: "The submarine is not all that wonderful." Dan Aykroyd sound-alike controls fortune over \$400 million. "People may consider me fat, dumb, lazy—and happy."

Vivian Leatherberry Smith

Inheritance. Houston. 80. Widowed, 2 daughters. Widow of oil roughneck and ex-boxer Robert Everett (R.E. Bob) Smith, who borrowed \$25,000 to buy two oil rigs 1922. Oil profits into Houston-area land 1940s-50s; became Harris County's largest owner (over 11,000 acres): "I have a thorough knowledge of land. That's why I invest in land." Much land in path of oil boom; cobuilt parts of Galleria complex. Helped build Colt .45s (now Hous- 1960; died 1973, estimated million estate. Viv a week; owns 12% As- is most home games:

"She's been a baseball fanatic all her life." Remaining land, sale proceeds, oil & gas interests believed worth at least \$400 million.

Burton Paul Resnick

Real estate. NYC and Rye, N.Y. 51. Married, 3 children. Father Jack started small Bronx construction firm 1928; built in Manhattan early 1950s. Burt joined Jack Resnick & Sons after U. of Chicago 1956; developed residential projects, bought older NYC buildings after 1970s real estate crash. Company now controls some 5 million sq. ft. NYC office space, thousands of New York area apts.; all managed in-house: "No one can take better care of them than us." Some early projects with Arthur Belfer (*which see*); two current NYC office projects now being leased. Jack largely retired in Fla.; Burt runs show now worth at least \$400 million.

Lillian Goldman

Inheritance. NYC. 66. Widowed, 4 children. Widow of Sol Goldman, billionaire NYC real estate baron, died 10/18/87. Sol bought foreclosed properties 1930s. Partners with Alex DiLorenzo Jr. 1951; Goldman-DiLorenzo grew into area's largest landlord. Post-NYC real estate crash, split properties with DiLorenzo heirs (*which see*) 1975; at death, owned nearly 700 NYC parcels. Lillian sued for divorce 1983; reconciliation agreement gave her 33% of Sol's estate. Lillian sued to void it, claimed conspiracy; lost 1987. Sol willed her 33% in trust; she's suing (again) to get cash up-front. Either way, should get over \$400 million (*see family*).

Harvey Roberts Bright

Oil, real estate. Dallas. 68. Widowed, remarried; 4 children. Dallas boy "Bum" studied Andrew Carnegie, J.P. Morgan. After Texas A&M, quit as Sun Oil engineer to wildcat late 1940s; bought real estate with oil profits: "Every Sunday I'd load my wife and kids into the car and price land." Also trucking, banking; sold East Texas Motor Freight Co. 1982 for estimated \$70 million.

Bright Banc (\$4.8 billion assets) sinking under Texas economy, nearly worthless. "I'd sell anything I could get any money for." A few candidates: 2,500 prime N. Dallas acres, 40% Dallas Cowboys, oil & gas. Bum: "I never said I was worth \$600 million. You did." Was, once. Still worth some \$400 million.

Philip Hampson Knight

Nike, Inc. Beaverton, Ore. 50. Married, 2 sons. Ran track at U. of Oregon. M.B.A. Stanford 1962. Wrote paper for marketing class, inspired idea of selling athletic shoes produced in Japan: "Everybody was writing about computers and electronics, but all I really knew about was running." Imported Japanese sneakers with track coach, Bill Bowerman (cofounder, Nike), worked as CPA for Price Waterhouse. Bowerman designed track shoes (put rubber in waffle iron to create uniquely studded sole), Knight advertised Nike as shoe of champions. Today stock and other holdings worth \$400 million. Still runs, works 60 hours. "It's what I've chosen to do with my life."

Samuel Zell

Robert Harris Lurie

Partners. Real estate, investments. Chicago. As U. of Mich. fraternity brothers, started investing in Ann Arbor real estate. First building: \$1,500 down on \$19,500. Split briefly while Sam practiced law. Anticipating inflation, bought distressed Sunbelt, Midwest properties 1970s, rehabbed for fraction of new construction cost; sold some for big gains, picked up more. Same approach to corporate America: took control of Itel Corp., Great American Management & Investment; used tax-loss carryforwards in further buys. Recently acquired holdings from Henley Group Inc. Sam, self-described "gravedancer," 46. Married, 3 children. Son of Polish immigrants, peddled *Playboy* in grade school for 200% profit. Bearded biker, prefers denim to pinstripes. Naturally acquisitive. "My whole focus is, how can I get a monopoly?" Robert, "a Woody Allen look-alike," 46. Married, 6 chil-



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dren. Bob crunches numbers while Sam cuts deals: "Two halves of a single human being." Partners share fortune believed to exceed \$780 million.

Stephen Davison Bechtel Jr.

Stephen Davison Bechtel Jr.

Engineering, construction. Father: Oakland, Calif. 88. Married, 2 children. Son: San Francisco. 63. Married, 5 children. Patriarch Warren Bechtel (d. 1933) founded Bechtel Co. predecessor 1898 in Oklahoma Territory. Moved to Oakland 1904. Built railroads; led \$50 million Hoover Dam job. Son Stephen Sr. won profitable govt. contracts for shipyards, pipelines WWII. Became industry goliath: Alaskan pipeline; D.C., SF subways. Stephen Jr. took over 1960, built over 40% all U.S. nuclear power plants. Oil boom brought huge Saudi Arabian contracts 1970s, including multi-billion-dollar industrial city, Jubail. "The Saudi family likes dealing one dynasty to another." Top execs tapped for Reagan cabinet posts (including Shultz, Weinberger). Good times over: Revenue peak \$14 billion 1983, now \$4.5 billion, down 30% in last year alone. Now taking equity positions in own construction projects; planning investment in nuclear plant. Very private Sr. and Jr. control estimated 50% Bechtel Group, other investments worth at least \$780 million.

Cyril Anthony Wagner Jr.

Jack Eugene Brown

Partners. Oil, investments. Midland, Tex. Formed Wagner & Brown Oil Properties 1962; sealed partnership with handshake: "We just complement each other." Huge oil holdings Texas, N.M., La., Mich., Rocky Mts.; also real estate, plastics technology. Cy: 54. Divorced, remarried; 5 children. Born Tulsa, U. of Okla.-educated geologist; the dealster. Jack: 63. Married, 3 children. Native Texan, Texas A&M-educated engineer. "Brown knows a good deal when he sees it. Wagner knows how to sell it." Joined takeover game, with raider T. Boone Pickens in failed Gulf bid 1984, pocketed \$70 million; also in on Pickens' runs for Unocal, Phillips Petroleum. Went solo as "Desert Partners" 1984, long trail of

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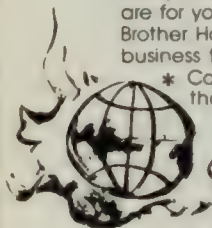
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The Forbes Four Hundred

failed takeovers since: Midcon bid rejected 1985; aborted runs at Lear Siegler 1986, GenCorp 1987; lost fight with USG Corp. 1988. Together, Cy & Jack believed worth at least \$780 million. Now buying In-silco (industrial conglomerate) for \$960 million: Success at last.

Roy Michael Huffington

Oil. Houston. 70. Married, 2 children. Father killed in rig accident while exploring for oil in South America. After geology Ph.D. from Harvard, Roy explored for Humble Oil (now Exxon); formed Huffco 1956. Saw Indonesian area resembled Gulf of Mexico formations; stupendous strike 1972, shared with many partners but retained 17% stake. Sold off interest in another oil co. for \$40 million after bitter fight with partner; also sold off drilling interests in Gulf Coast area for reported \$60 million. Both children in business: geologist daughter is vp; son made society pages with opulent 1986 wedding (daughter-in-law penned controversial new book on Picasso). Minimum net worth \$390 million.

Andrew Jerrold Perenchio

Television. Bel Air, Calif. 57. Twice divorced, 3 children. Son of Fresno vintner; ran catering business to pay for UCLA. Then, talent agent; clients: Liz Taylor, Marlon Brando. Promoted Ali-Frazier fight, Billie Jean King-Bobby Riggs match. Teamed with Norman Lear 1974; sold all program interests in 1985 to Coca-Cola for \$485 million. Bought Loews theaters for \$160 million in 1985, sold for reported \$300 million 1986. Owns \$13.6 million Kirkeby estate, previous home of Beverly Hillbillies, next door to future home of President Reagan. Now self-described as semi-retired, avoids press. Believed worth over \$390 million.

Robert Alfred Lurie

Real estate, inheritance. San Francisco. 59. Divorced, remarried; 4 children, 2 adopted stepchildren. Son of colorful real estate, entertainment wheeler-dealer Louis (d.

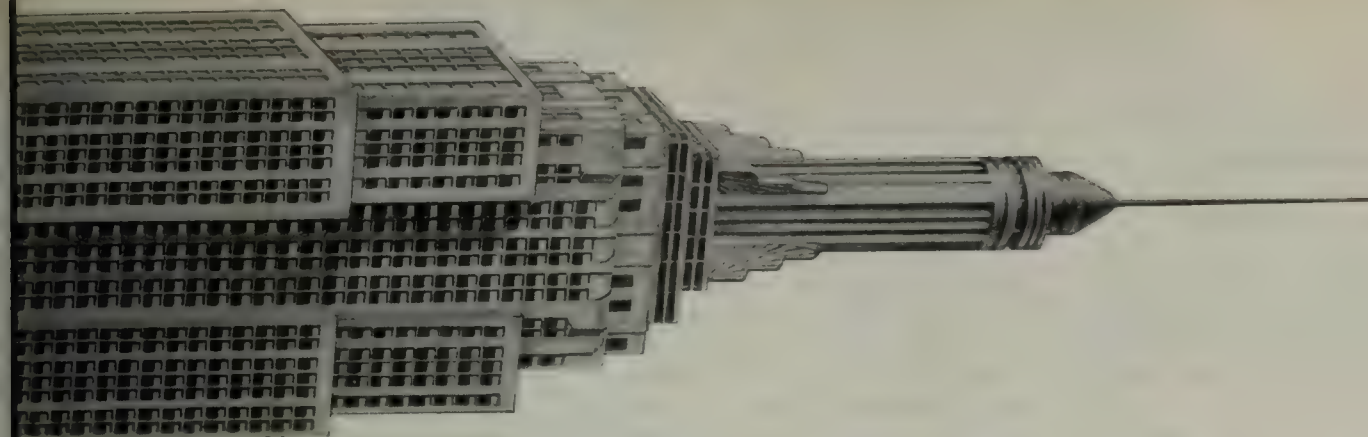
1972) who built 300 buildings, produced Broadway hits (*South Pacific*, *West Side Story*), movies (*Tarzan*). Steady caretaker father's buildings, avoids both debt and acquisitions. Passion: San Francisco (baseball) Giants purchased 1976. It's "more exciting and challenging than making real estate deals." Still fighting battle for downtown stadium while considering alternatives (e.g., Santa Clara). Low-key, cigar-chomping, hands-on businessman: signs all checks personally. Real estate, other assets believed worth at least \$385 million.

Richard Alan Smith

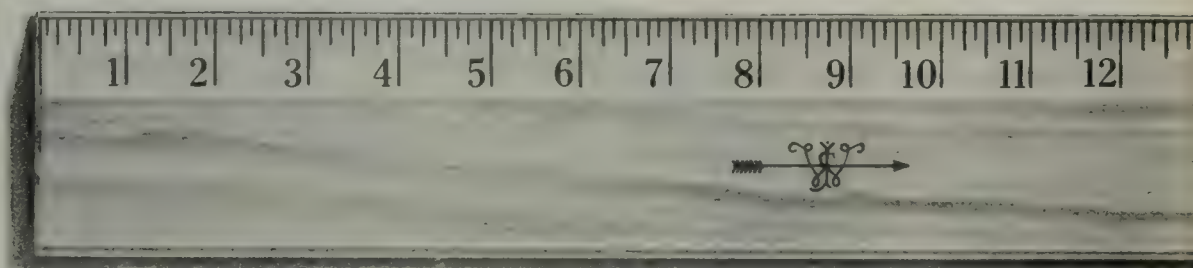
General Cinema Corp. Chestnut Hill, Mass. 64. Married, 3 children. Father Philip founded company 1922, opened first drive-in theater 1935. Richard managed cinemas after Harvard 1946, took over after father's death 1961. Added Pepsi bottling; now over 1,300 motion picture screens. White knight for retailer Carter Hawley Hale, bought 59% of Neiman Marcus Group 1987. "We have always been driven by the search for value, not the need to build an empire." Non-moviegoer; philanthropist, with stock alone worth \$385 million. Observer: "The key to General Cinema's success is that Dick Smith is one of the best corporate managers around."

John Jeffrey Louis Jr.

Inheritance. Winnetka, Ill. 63. Married, 3 children. Mother, Henrietta, a Johnson of S.C. Johnson & Son (see also S.C. Johnson). Deerfield Academy; left Northwestern for Army Air Force, got wings 1945. Worked in father's advertising agency before international marketing for Johnson Wax. Venture capitalist: Combined Communications 1968; chairman until 1981 merger with Gannett. Major GOP contributor; ambassador to Britain for Reagan 1981. Not professional diplomat; resigned 1983. Director S.C. Johnson & Son, Gannett, Air Wisconsin, Baxter-Travenol. Philanthropist, golfer, amateur flier. With family's 30% S.C. Johnson & Son, other holdings, exceeds \$375 million.



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Source: National Bill Comparisons, January 1987, Pacific Gas & Electric Co

The Forbes Four Hundred

Paul Milstein

Seymour Milstein

Brothers. Real estate, investments. NYC and Scarsdale, N.Y. Seymour: 68. Married, 2 children. Paul: 66. Married, 4 children. Father Morris Milstein founded Circle Floor Co. 1919; floored NYC landmarks: Rockefeller Center, Madison Square Garden, World Trade Center. Paul headed Circle, Seymour pres. Mastic Tile Co.; both sold by early 1960s. First major development: 684-unit Dorchester Towers, NYC 1964. Paul: "Father said, 'Son, I don't think you can make it.'" Milstein Properties now owns hotels, apts., offices, etc. Seymour: "We have good real estate. I'm proud of that." Took over United Brands 1975; sold stake to Carl Lindner (*which see*) 1984, pocketed \$40 million. Took over \$3.4 billion Emigrant Savings Bank 1986 (an "absolute steal"). Brouhaha over NYC's Biltmore Hotel 1981: Milsteins razed landmark Palm Court lobby, built 1 million sq. ft. office tower. Together, share fortune exceeding \$750 million. Seymour denies: "Twenty years from now it might be worth that."

August Christopher Moyer

Broadcasting. Champaign, Ill. 87. Widowed, 1 son in business. Successful lawyer in hometown Champaign. Entered tv business by de-



The youngest member of The Forbes Four Hundred is Lee Bass, 32.

fault: Invested in local tv station 1953, took over in order to rescue investment, eventually acquired. "We started out losing a lot of money. I had to get more involved than I had intended to." Bought San Diego tv station 1964 for \$11 million; now worth \$200 million. Midwest Television owns 3 tv, 4 radio stations, almost debt-free. Chairman of family-controlled Bank of Illinois (assets, \$203 million) since 1962. Son August Jr. (Chris) running stations since 1976. With San Diego real estate, bonds, net worth estimated at least \$375 million.

Allen Eugene Paulson

Gulfstream Aerospace Corp. Savannah, Ga. 66. Twice divorced, 3 sons. Iowa farmboy took bus to San Francisco at 13 when parents' farm failed during Depression. "Nobody was poorer than I was as a kid." TWA mechanic at 19 for 30 cents/hour 1942. Formed successful aircraft conversion co. 1951; bought Gulfstream jetmaker 1978 for \$52 million. Took public 1983, sold to Chrysler 1985; netted over \$450 million (still CEO). Sank \$50 million in Wheeling-Pittsburgh Steel Corp.; after failing to revive, sold out for \$100,000 1987. "He got a \$40 million tax writeoff." Collector of Thoroughbreds, southern real estate: 6 homes, 3 ranches. Estimated net worth: \$375 million.

Larry Abraham Silverstein

Real estate. NYC. 57. Married, 3 children. Father Harry NYC real estate developer and investor specialized in leasing loft space; Larry, now ex-brother-in-law Bernie Mendik (*which see*), joined 1950s, pushed into property syndication. "If we stayed in the brokerage business, we were going to starve to death." Split with Bernie 1977, bought NYC office space; controls over 10 million sq. ft. Built \$300 million, 2 million sq. ft. 7 World Trade Center NYC 1986: "Our timing was absolutely perfect." Maybe, but plan to rent whole building to tenant Drexel Burnham fell through 1986; now 80% empty. Also NYC project with Mel Simon (*which see*). Despite 7 World Trade Center, still worth over \$375 million.

Mark Les Goodson

Game shows. NYC. 73. Thrice divorced, 3 children. Father opened first health food store, Berkeley, Calif., 1932. After college, successful radio announcer, but "mike fright" hit. With partner Bill Todman (d. 1979) started 1950 tv game show *What's My Line?* "I gave it 10 weeks." Later, *I've Got a Secret*, *To Tell the Truth*, *The Price is Right*, *Password*, *Family Feud*, etc. Profits plowed into newspapers, real estate. When in LA, works poolside: "I like a tan look." Paid \$170 million for *New Haven Register* 1986; \$155 million for Morristown (N.J.) *Daily Record* 1987. Net worth exceeds \$375 million. Mark on third divorce: "The higher you go up Mount Olympus, the farther you fall."

John Charles Haas

Fritz Otto Haas

Brothers. Rohm & Haas Co. Father Otto immigrated to Philadelphia 1909 after launching German chemical business; partner Otto Rohm stayed in Germany. First product: leather tanning agent (replaced dog manure); added pesticides, coatings 1920s. Developed Plexiglas 1932. Went public 1949;



The oldest member of The Forbes Four Hundred is Iphigene Ochs Sulzberger, 96.

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The Forbes Four Hundred

Rohm's stake seized in WWII for possible German ties. International business boomed in 1950s; Haas died 2 days after retiring, 1960, age 87. Sons F. Otto, John ran business during ill-fated diversification into fibers, pharmaceuticals. F. Otto retired 1970; presidency to nonfamily executive. John: Villanova, Pa. 70. Married, 5 children. Left board 1988. Chairman, William Penn Foundation; executive, Nuclear Arms Reduction. F. Otto: Ambler, Pa. 73. Widowed, 3 sons. Family holdings Rohm & Haas worth at least \$740 million.

Joseph Albert Albertson

Albertson's, Inc. Boise, Idaho. 82. Married, 1 daughter. Dropped out of college (1927) for \$26-a-week Safeway Stores job. Quit in 1939; with L.S. Skaggs (*which see*) pioneered grocery-drugstore with \$5,000 savings, \$7,500 loan. First store had magazine rack, in-house bakery "innovations." In 1941 \$1 million sales; \$1 billion in 1974; \$5.9 billion in fiscal 1988. "I had a lot of confidence it would be successful, but it took a lot of guts." Amicable split with Skaggs 1977. Built 17-state empire of 480 stores. Still active in company as chairman, Exec. Committee: "There was a day I had to do damn near everything, but today I don't worry." Doesn't have to: his 16%-plus Albertson's exceeds \$370 million.

Shelby Cullom Davis

Investment banking. Tarrytown, N.Y. 79. Married, 2 children. Graduated Princeton 1930, Columbia grad school 1931, Ph.D. pol. sci. University of Geneva 1934. CBS correspondent in Switzerland before WWII. Later ambassador to Switzerland 1969-75. Returned to U.S., bought up insurance stocks 1947 just as bull market started; learned insurance business as N.Y. superintendent of insurance 1945. Founded Shelby Cullom Davis Co. 1943, one of the first to specialize in insurance stocks. Currently chairman Heritage Foundation, National Right to Work, conservative think tank.avid skier with wife, grandchild. Estimated net worth \$370 million.



**The youngest member of
The Forbes Four Hundred
whose fortune is self-
made is William Gates, 32.**

Patrick Joseph McGovern

Publishing. Nashua, N.H. 51. Divorced, remarried; 2 children. Son of Philadelphia construction manager; in tenth grade built machine to play Tic-Tac-Toe. Won MIT scholarship, edited early computer magazine. Did computer-related market research; founded IDG with \$5,000 1964. Now \$400 million sales with more than 100 computer publications worldwide, including flagship *Computerworld*. Reviews carry much industry clout. Laid-back manager: "If you have the right people, all you have to do is meet once a year and say, 'How did it go?'" Flies coach, lives modestly: "Living ostentatiously means just putting other people down." His 80% IDG, investments worth estimated \$370 million.

Gordon Earle Moore

Intel Corp. Santa Clara County, Calif. 59. Married, 2 children. Deputy sheriff's son; after chemistry Ph.D. from California Institute of Technology got in on ground floor

Shockley Semiconductor Lab 1956; left with colleagues to form Fairchild Semiconductor Corp. 1957: first commercial integrated circuit. Founded Intel Corp. 1968, pioneered memory chips, microprocessors. Now leads industry; 1987 revenues \$1.9 billion. Management style considered one of nation's best. Stepped down as chief executive officer 1987; still chairman involved in research, development. His Intel stock worth more than \$370 million. "It was not part of a well-conceived plan; I'm lucky if I can plan as far ahead as next week."

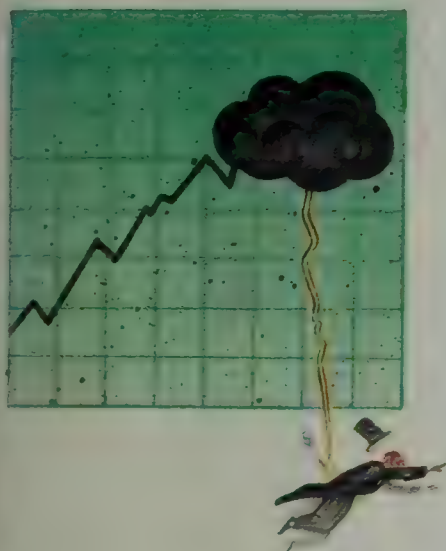
An Wang

Wang Laboratories. Lincoln, Mass. 68. Married; 2 sons, 1 daughter. Born Shanghai; studied engineering Chiao Tung University. Selected by Chiang Kai-shek to study in America, earned Harvard physics doctorate in three years. Invented pulse controller at age 28; forerunner of magnetic core memory, sparked use of computers; sold to IBM. Began Wang Laboratories 1951. Developed first simplified logarithmic calculator, early word-processing system. Recently recovered from industry slump, introduced new integrated imaging system 1987. Established investment banking subsidiary with \$50 million venture capital. Modest, practical. Tennis buff. Son Frederick, 38, president: "Wang is rich with vision, and it is my job to implement." Stock is worth around \$365 million.

Anne Burnett Marion

Inheritance. Fort Worth. 49. Thrice divorced, remarried (to Sotheby's John Marion); 1 daughter. Great-grandfather Samuel Burk Burnett, Chisholm Trail driver. Legend: won ranch in poker game (called it Four Sixes Ranch); amassed 448,000 acres W. Texas. Mother expanded fortune via oil, marriages; fourth hitch, to Tandy Corp. founder Charles Tandy, front page news in Fort Worth 1969. "They should have gotten Justice Dept. approval." Daughter Anne inherited 1980; directs \$190 million Tandy Foundation. Lives in I.M.

The Forbes Four Hundred



The fortunes on The Forbes Four Hundred listing for 1987 that declined the most, in dollar terms, during last year's stock market crash had fared as follows by

**Aug. 30:
23 Oct. '87 30 Aug. '88
(millions)**

Walton	
\$5,900	\$6,700
Arison	
\$1,080	\$1,400
Hewlett	
\$1,020	\$1,060
Kauffman	
\$906	\$635
Kerkorian	
\$575	\$780
Magness	
\$290	\$372
Murdoch	
\$1,100	\$1,080
Packard	
\$1,960	\$2,000
Petrie	
\$855	\$472
Speer	
\$256	\$136
Wexner	
\$1,050	\$1,000

Pei-designed home; avid outdoors-woman, hunts quail in Jeep. Latest divorce won't affect net worth, which should be over \$360 million. Lawyer: "There is such a thing as a prenuptial agreement."

Maurice Raymond Greenberg

Mansfield Freeman

American International Group. NYC. AIG founded Shanghai 1919 by C.V. Starr (d. 1968), first West-erner selling insurance to Chinese. Built intl. conglomerate; no heirs. Large block AIG shares, other investments in private holding companies controlled by key executives; control passes to their designated successors—in effect, inherited by top management. Same fraternity controls 400-acre Starr estate (N.Y.), Vt. ski area, country club. Greenberg: NYC. 63. Married, 4 children. Raised on N.Y. State dairy farm. Army, WWII and Korea; law school on G.I. bill. Chance interview led "Hank" to insurance, joined AIG 1960. President, CEO 1967. Stock, other investments estimated at \$360 million. Freeman: Greensboro, Vt. 93. Widowed, 1 son. Joined Starr year after founding; left China 1941, retired 1960: "You start a company just to make a living, then suddenly it blossoms and you get new ideas." Son Houghton, senior vp at AIG, votes shares. Stock, other holdings worth at least \$240 million.

James Le Voy Sorenson

Medical devices. Salt Lake City. 67. Married, 8 children (all professionals) in business. Worked in fruit cannery to support family at 14. Accepted at medical school ("The more of a specialist you become, the less chance you have of becoming an entrepreneur"), but called to Mormon missionary work instead. Worked at Upjohn; began developing medical devices late 1950s, hit big with disposable catheter, sold out 1960. Started Sorenson Research 1972; sold for \$100 million in Abbott Labs stock 1980. Now Sorenson Development: 3-D imaging for medical, recreational uses; real estate, etc. Worth at least \$360 million.

John William Berry Sr.

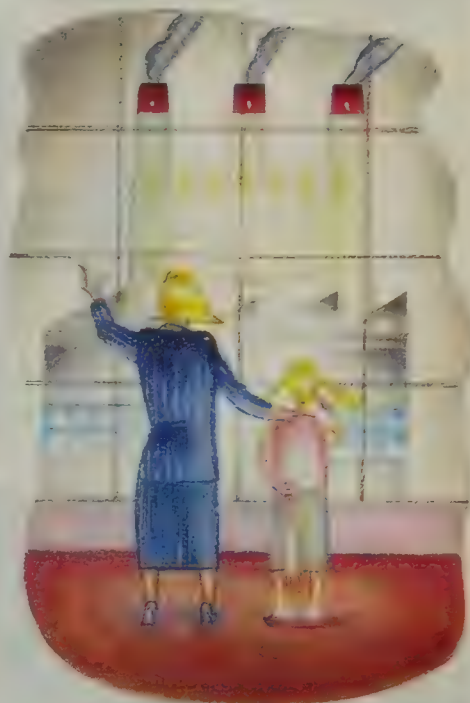
Yellow Pages. Dayton. 66. Twice divorced, remarried; 5 sons. Son of Loren M. Berry, who at age 8 sold

horseradish for 5 cents per glass to help support family. Briefly sold phone book ads in Indiana; moved to Dayton 1910 with \$200, talked Dayton Home Telephone Co. into letting him handle its ad sales using paper of one color. "Mr. Yellow Pages" died 1980 at 91. John Sr. took over, bought out siblings; expanded co. Sold L.M. Berry & Co. for estimated \$335 million in BellSouth stock 1986, retired 1987. Now chairman Berry Investments Inc., includes hunting supply co., security device firm, other investments. Son John Berry Jr., CEO of L.M. Berry—separate from BellSouth. Net worth at least \$360 million.

Wilton Robert Stephens

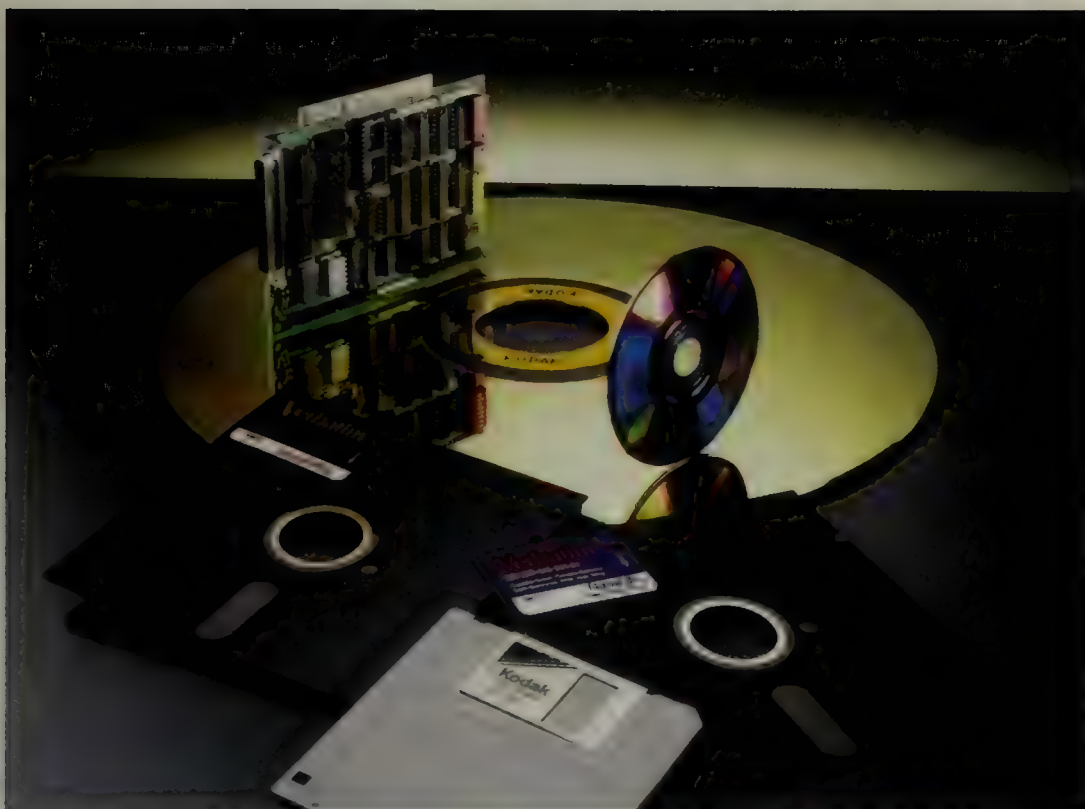
Jackson Thomas Stephens

Brothers. Investment banking. Little Rock, Ark. Witt: 81. Widowed, remarried; 3 children. Jack: 65. Divorced, remarried; 5 children. Witt peddled belt buckles, Bibles. Switched to buying municipal bonds low, selling high, 1933. Became kingpin Arkansas politics; Jack (Annapolis roommate of Jimmy Carter) grew Stephens Inc. into largest investment house off Wall



49 members of The Forbes Four Hundred are women.

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The Forbes Four Hundred

Street (took public Wal-Mart, Tyson Foods; see *Walton, Tyson*). Diversified: oil and gas, real estate, high tech (48% Systematics, Inc.), banking. Bought 31.2% of troubled Worthen Banking Corp. Also Far East interests; sometime partners with Indonesian father-and-son team Mochtar and James T. Riady. Witt now less active. Jack, chairman, cutting deals in Asia, Europe; Jack's son Warren, 31, CEO, building Stephens Inc. into national presence. Observer: "Warren wants to make money for the firm, but [not] by riskier ventures." Split into Stephens Inc. (investment banking) and Stephens Group (family interests); combined capital over \$500 million. Hurt by crash, publicity of firm's futures trader's committing suicide three days after dismissal; talk of embezzlement. Brothers still share fortune exceeding \$700 million.

Grover Connell

Food, equipment, leasing. Westfield, N.J. 70. Married; 3 children, 2 in business. Took over family's Connell Rice & Sugar 1950, after WWII Navy hitch; built into nation's biggest independent broker/trader in rice, sugar. Handles much of government's foreign-aid rice crop. Expanded into booming equipment leasing business 1973, now more than half his business. Over \$600 million in owned equipment; "We do a lot of big deals." Combined revenues exceed \$1 billion. Developing 170 acres commercial real estate in N.J. Lives modestly, ranch-style home. Well-wired Democrat. Net worth believed over \$350 million.

Charles B. Engelhard

Inheritance. Far Hills, N.J. 70. Twice widowed, 5 daughters. Father Brazilian diplomat; family left war-torn Europe 1940 for Buenos Aires with "nothing except our passports and our personal belongings." Second husband "Platinum King" Charles Engelhard Jr., who built \$20 million precious metals business into estimated \$300 million estate; died 1971, most left to wife. Collects rare books, documents, including Louisiana Pur-

chase Proclamation and unpublished autobiography of George Washington. Shuns publicity: "She doesn't care for parties." Including trusts, controls fortune believed to exceed \$350 million.

Frederik G.M. Meijer

Retailing. Grand Rapids, Mich. 69. Married, 3 children. Grandfather Hendrik, after frantic Depression search for tenant for vacant storefront, opened own food store as last resort. Fred, "merchandising genius" to peers, considered shrewd buyer, shrewd marketer, watcher of every detail. "Shoppers don't like to wait in line"; Meijer's has an inordinate number of checkout counters. Even local union head admits, "This is a fair company." Pay-off: above-average profit margin financing expansion. Meijer, Inc. estimated \$2 billion in sales, close to 50 stores (generally part grocery, part discount department); owns warehouses, shipping. Fred denies, but net worth at least genius class \$350 million.

Nan Tucker McEvoy

Publishing. San Francisco. 69. Divorced, 1 son. Granddaughter of Michel H. de Young (d. 1925), controversial founder *San Francisco Chronicle*. Nan former journalist, Peace Corps administrator, abortion clinic founder; inherited largest share of Chronicle Publishing this year from mother and family matriarch Phyllis de Young Tucker, last of Michael's children (see *de Young family*). Gave some shares to son: "You hate to have them think, 'Well, when will good old mother die.'" At first unsure of financial savvy, now confident she can run business, keep co. in family control. "It's a wonderful property, and the family is lucky to own it." Her share worth over \$350 million.

James R. Cargill

Margaret Cargill

Inheritance. Brother and sister. Cargill, Inc. Grandchildren of William W. Cargill (d. 1909), founder of food-processing giant (see *Cargill*)



154 members of The Forbes Four Hundred control fortunes that were mostly or entirely inherited.

MacMillan family: also individual MacMillans, Keenath, Pictet). James: Minneapolis. 65. Married, 3 children. With company since 1947, now senior vp, director. Said to concentrate on personal business affairs, e.g., Dinnaken Properties, small real estate venture. Expert trout fisherman. Margaret: La Jolla, Calif. 68. Extremely private. Little known. Together, thought to own their family branch's 25% Cargill stock, worth at least \$700 million.

Ernest Gallo

Julio R. Gallo

Brothers. Wine. Modesto, Calif. 79, 77. Each married, 2 children. Italian immigrant father Joseph bought 230-acre Modesto vineyard; Depression all but wiped him out. Brothers went to local public library to find out how to make wine, started with \$5,900. A billion dollars later (estimated 1987 Gallo revenues), smiling Julio still squeezes the grapes, unsmiling Ernest pinches the pennies. First major success: Thunderbird (connoisseurs reject,



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The Great Barrier Reef is often referred to as the eighth wonder of the world. Between this magnificent work of nature and the Queensland coast lies a group of islands called the Whitsundays. One of them, the northernmost, is Hayman. It is the only resort hotel in Australia to be recognised by The Leading Hotels of the World and is undoubtedly the most luxurious in the southern hemisphere. No expense has been spared on anything from landscaping, decor and furnishings, to even the tiniest

of details. There are over 200 sumptuously appointed rooms, six superb restaurants and a wide variety of activities. Guests can go sailing, deep-sea fishing, snorkelling and scuba-diving on the Great Barrier Reef, to name but a few. For information, brochures and reservations, call Ansett Airlines of Australia from anywhere in the USA or Canada on (800) 3661300.

H A Y M A N
G R E A T B A R R I E R R E E F
A U S T R A L I A

The Forbes Four Hundred

winos don't). Constant effort since to upgrade product, image. Gaining share in premium and "superpremium" (\$8/bottle and up, retail) wines. Chairman Ernest considered "intuitive marketing genius." Sales recruits get 300-page training manual. Ad budget 1987 estimated \$70 million. Tardy entry 1985 (Bartles & Jaymes) in cooler market took top spot in just six months, lost momentum 1987; market share dropping. Brothers got estate tax change known as Gallo Amendment. Brother Joseph from same tough mold: Ernest and Julio sued for putting family name on cheese business; he countersued for third of winery (suit thrown out). Company alone worth \$700 million; Ernest believed also to hold large personal portfolio.

William Barron Hilton

Hilton Hotels. Los Angeles. 61. Married, 8 children. Happy-go-lucky son of hotel magnate Conrad Hilton. "Barron" turned down Hilton job for Calif. fruit distributor 1950s (Hilton Hotels didn't pay enough); also formed Air Finance Corp. aircraft leasing firm. Joined Hilton as vp 1954, pres. 1966, pushed entry into casinos, spent over \$1 billion on face-lifts for older hotels. Founded San Diego Chargers (football) 1960. Plays bridge; flies gliders, stunt planes; palatial home featured in TV series *The Colbys*. Recently won 8-year dispute over his option to buy huge stock block left to Catholic nuns by father (d. 1979). After settlement, stock worth at least \$350 million.

Frank James Pasquerella

Real estate, dept. stores. Johnstown, Pa. 62. Married, 2 children, both in business. Father, immigrant coal miner, died of black lung disease when Frank was 18. Clerk for small masonry co. In 5 years, pres.; later, sole owner. Built first mall 1960. Crown American now 31 million sq. ft. in 28 malls, 8 smaller shopping centers; 14 hotels. Headquarters and hotel damaged in 1977 Johnstown flood. Bought 17 Hess's dept. stores for \$35 million 1979. Aggressively expanding; now 73 stores, some cap-

tive anchors for new malls. Equity estimated \$350 million. Building new \$27 million corp. HQ on same flood plain: "Johnstown has always been and will always be my home."

Lawrence Arthur Wien

Law, real estate. NYC. 83. Widowed, remarried; 2 daughters. Son of wealthy NYC silk cloth maker. After Columbia U. Law founded law firm 1929. With partners bought Harlem apt. house for \$8,000 1931; pioneered real estate syndication but "I'm a lawyer, not a real estate man." Teamed with



224 members of The Forbes Four Hundred built their fortunes without any significant inheritances.

Harry Helmsley (*which see*) on many projects, "the Rodgers and Hammerstein of real estate." Harry scouted properties, Larry roped cash. Balked when Harry went into hotels: "As a result, Harry became far wealthier than I." Still owns big chunk Empire State Building, other NYC buildings. Golfs with "a great deal of ineffectuality." Believed worth at least \$350 million.

Alfred Mack Pogue

Real estate. Dallas. 54. Married, 3 children. "Mack" born Sulfur Springs, Tex.; erstwhile high school

football coach. Became Dallas real estate broker 1960s; met Trammell Crow (*which see*) 1965, formed Lincoln Property Co. to build garden apartments. "I was trained by the master." Bought out "master" for \$150 million 1977, began building offices, warehouses. "Pogue's chicken formula": trade equity for cash. "We put no cash in our deals. None." Lincoln now nationwide building giant: owns 83,000 apartments, over 54 million sq. ft. commercial space. Mack's estimated 25% worth at least \$350 million. "We all get up every day—every day—and do our real estate deals."

Franklin Parsons Perdue

Chickens. Salisbury, Md. 68. Twice divorced, 4 children. Grade school egg peddler at father's hatchery; then to teachers college hoping to play big-league baseball. After disease wiped out dad's leghorns 1940s, switched to then-new broiler business; by 1968 A.W. Perdue & Son fully integrated: feed, processing, etc. Private Perdue Farms now nation's 4th-largest chicken outfit, sales over \$1 billion. Frank "the Pierre Cardin of Poultry," Ed Koch look-alike, squeaky-voiced pitchman: "Is your husband a leg or breast man?" Met with NYC mob big Paul Castellano to block union drive 1980; retired as Perdue CEO 1988, still chairman. Industry down, but Frank's 90% (with family) worth at least \$350 million.

Robert William Galvin

Motorola. Barrington Hills, Ill. 66. Married, 4 children. Father, Paul Galvin (d. 1959), started manufacturing car radios 1928, walkie-talkies WWII. Robert groomed for business from childhood; pres. 1956. Chairman since 1964, sold off traditional products (TV manufacturing sold 1974, built last car radio 1984). Became leading manufacturer radio and data communications, semiconductors and information systems. World leader in cellular telephones. "We have tremendous momentum and are way up on the learning curve." Son Christopher, 38, named chief corporate staff officer 1987. Controls 6.2% of company worth \$350 million.

The Forbes Four Hundred

Jack Parker

Real estate. NYC and Boca Raton, Fla. 73. Married, 2 children. Son of blouse-maker joined uncle's wrecking business during Depression; later, as lumber salesman, bit by building bug. Founded Parker Construction Co. 1955: "When I went into business, I went into it on my own. That takes guts." Built apts. NYC's Queens 1950s, Manhattan apts. 1960s; heavy co-oper, estimated \$150 million in conversion profits over 20 years. Built Hotel Parker Meridien 1981; his hotel office nameplate: "Jack Parker—Owns the whole shebang." Shebang, other assets, worth at least \$350 million. Jack: "It's a crapshoot. You bet your money on the future, and you hope your vision is correct."

Joseph Alexander Hardy

Building supplies. Pittsburgh, Pa. 65. Married, 5 children. Worked in father's jewelry store, sold vegetables to pay for college. With Ryan Homes founder Ed Ryan, 2 brothers, founded Green Hills Lumber Co. 1952. Founded own 84 Lumber store 1957 with \$20,000; adopted no-frills approach of Wickes Cos.' stores: no advertising, "Quonset hut" buildings (no heat/AC), mostly cash and carry. Private 84 Lumber Co. now 385 stores, over \$900 million sales; modernizing with store renovation, outside volume selling, credit. "Associates" work 60-hour weeks, vie for corny sales awards ("Top Gun," "Rookie of the Year"). Joe worth over \$350 million, smokes only imported cigars.

Edwin Lochridge Cox Sr.

Oil. Dallas. 66. Widowed; 2 sons, 1 daughter. Born, reared Mena, Ark.; moved to Texas and oil 1946. Became one of nation's largest independent oilmen; production in Tex., La., Okla., Colo. through Cox Oil Co. Onetime chairman Sedco, cookiemaker Keebler; founding director InterFirst Corp. (now First RepublicBank Corp). Son Ed Jr. built \$3.6 billion (sales) agribusiness empire (Val-Agri, Swift meat-packers, others) 1985-87; crashed with \$78 million InterFirst loan de-

fault 1986 (since paid), cos. sold off; Ed Jr. drew 6 mos. jail. Banker: "The Coxes have been perceived as being richer than God." Not quite, but Ed Sr. still believed worth at least \$350 million.

William Alfred Cook

Catheters. Bloomington, Ind. 57. Married, 1 son. Illinois boy; drove cab as Northwestern undergrad 1950s. Lasted 1 week Wash. U. pre-med; sold medical supplies Chicago. At wife's behest packed Corvair 1963, moved to Bloomington; with \$1,500 bought soldering iron, blow



Among members of The Forbes Four Hundred, those whose fortunes are primarily inherited have an average estimated net worth of at least \$583 million. Those whose fortunes include little or no inheritance average at least \$517 million.

torch, plastic tubing, made then-new cardiovascular catheters. Private Cook Group, Inc. now \$250 million sales, over 10% net profit; one of largest-volume U.S. catheter producers (also pacemakers, syringes, etc.). After bypass surgery 1974 quit smoking, dropped 90 lbs.; now fitness nut. Cook denies, but with real estate, insurance, worth well over \$350 million. "I was just looking for a way to make a living so I could live in Indiana."

Gary Campbell Comer

Lands' End. Chicago. 60. Married, 2 children. Award-winning copywriter for Young & Rubicam 1952-62. Started as salesman for sailmaking company. Avid sailor; competed 1968 Olympic trials. Founded Lands' End, mail-order catalog for sailing supplies and accessories, 1963. "Award-winning" copy in catalogs spurred initial growth. Small clothing section made big bucks: added traditional apparel, sailing items eliminated by 1977. Company features polite operators, entertaining catalog; Comer: "I treat customers the way I want to be treated." Went public 1986. Shy, unpretentious. With 52% Lands' End stock, other assets, worth well over \$350 million.

Max Martin Fisher

Oil, investments. Detroit, NYC, Palm Beach. 80. Widowed, remarried; 5 children. Son of Russian immigrant peddler. Football scholarship to Ohio State 1926. Started at father's tiny oil reclaiming plant, \$15 a week. Swung new refinery, fully integrated firm: Aurora. Acquired Speedway 79 gas stations 1947. Sold Aurora to Marathon Oil for stock 1959, tendered to U.S. Steel 1982 for about \$200 million. Many real estate investments, some with buddy Al Taubman (*which see*): Irvine Ranch deal; holds 11.5% stake Sotheby's. Half of income to charity; Israel supporter. Helped raise \$1 million for Bush primary campaign. "You can't please everybody in this world." Worth over \$340 million.

Anthony Martin Pilaro

Duty Free Shoppers. Southampton, N.Y. 52. Married, 2 sons. Born NYC, University of Virginia undergrad and law school 1960. Worked for Nassau-based Butlers Bank 1960s. Met future fugitive Robert Vesco while at Butlers; became consultant to Vesco after latter's successful takeover of Bernie Cornfeld's Investors Overseas Services early 1970s. Early investor with Charles Feeney (*which see*) in Duty Free Shoppers, estimated \$2 billion

The Forbes Four Hundred



The states with the largest concentrations of members of The Forbes Four Hundred are:

New York, 82
California, 62
Texas, 36
Illinois, 22
Florida, 18
Pennsylvania, 15
Massachusetts, 12
Ohio, 11
Michigan, 10
Minnesota, 10

(sales) duty-free retailer. Highly secretive; has Swiss chalet; Southampton, NYC homes. Also owns at least 10% Duty Free Shoppers, may own more. Pilaro fortune believed worth over \$340 million.

Seymour B. Durst

Royal H. Durst

David H. Durst

Brothers. Real estate. Father Joseph emigrated from Austria 1902; founded Durst Organization 1915 to manage Manhattan properties. Sons shifted emphasis from residential to office space 1940s ("and we're very happy we did"); built several Third Ave. office buildings 1950s, moved over to Sixth Ave. 1960s. Durst Organization now owns about 4.5 million sq. ft. midtown NYC office space, also 275,000 sq. ft. prime land in midtown. Seymour: "Times Square is like the Bermuda Triangle—investments made there are never heard from again." Seymour: NYC. 75. Widowed, 4 children. Heads Durst Organization. "We're land assemblers." Royal: Westchester Cty.,

N.Y. 69. Married, 3 children. David: Chappaqua, N.Y. 63. Married, 5 children. Brothers share fortune estimated at least \$1.02 billion.

Bernard H. Mendik

Real estate. NYC. 59. Divorced, remarried; 3 children by first wife, 1 son by second. Born Scotland; raised Depression-era South Bronx, son of handyman. Bernie peddled glassware through New York Law School; with now ex-brother-in-law Larry Silverstein (*which see*), began syndicating buildings 1957. Split 1977, still partner in some buildings. Now buys, rehabs Manhattan office space; Mendik partnerships control some 12 million sq. ft. NYC office space. Raised \$200 million through E.F. Hutton fund for office purchases: "We spent it all." Also projects Connecticut; Westchester County, N.Y. "It's pretty hard to do any deals in NYC anymore." Bernard worth at least \$340 million.

William Arthur Fickling Jr.

Charter Medical Corp. Macon, Ga. 56. Married, 4 children. Eagle Scout; attended Auburn University on basketball scholarship; graduated cum laude. Stint in Air Force as guided-missile officer, then "worked for my daddy." Spun off Charter Medical from father's real estate firm 1969. Began with nursing homes, switched to hospitals. Now nation's largest provider psychiatric health care; "a lean company with a central directive to do one thing and do it well." Owns, operates 13 acute-care facilities, 69 psychiatric hospitals U.S., Switzerland, London. Led \$1.1 billion buyout of company in September. Fickling fortune believed worth \$340 million.

Robert Einar Petersen

Publishing. Beverly Hills. 62. Married. Auto mechanic's son; hit on plan to turn hobby into magazine. With \$400 and partner put together *Hot Rod*; hawked for 25 cents at races 1947. Bought out partner 1950; Petersen Publishing now 14 monthlies (*Motor Trend*, *Guns & Ammo*, *Skin Diver*), 11 bimonthlies.

Just acquired *Sport* magazine. "We're a good medium for a lot of what advertising is: beer, cigarettes, cars, all those good things." First to bag polar bear with revolver 1965. "It was shoot or be fatally mangled." Pursues all activities his magazines cover: "Except for *Teen*." Tends Beverly Hills Western art gallery. Magazines, real estate, art worth at least \$340 million.

Charles Allen Jr.

Herbert Allen

Herbert Anthony Allen

Stock market, real estate. NYC. Charles: 85. Divorced, remarried; 3 children by first marriage. Brother Herbert: 80. Widowed, remarried; 1 daughter, 1 son. Charlie reared in Manhattan cold-water flat, quit high school at 15, started bond trading at 19 with \$1,000, 2 phones. Brought in Herb 1928. Lost first million in Crash. Herb's deft Depression trading kept Allen & Co. going. Since 1930s, bets on unlikely firms paid off in spades: Herb (now semiretired) put \$3 million in Benguet Mining, yielded over \$45 million; Charlie's \$1 million in Syntex 1958 now about \$250 million.



12 states have no residents who are members of The Forbes Four Hundred.

Jim,
If it's good enough for
the government, let's look into it.
Give Diners Club a call.

THE NEW YORK TIMES

U.S. Chooses Diners Club For Credit Card Contract

By CALVIN SIMS

The General Services Administration yesterday awarded Diners Club Inc., a subsidiary of Citibank, a one-year contract to provide credit card service to more than 400,000 Federal employees who travel frequently on Government business.

Diners Club currently provides credit card services to Federal employees under a pilot program that began in 1983. That contract expires Nov. 30, when the new contract will take effect.

Citibank competed against the American Express Company and the Security Pacific National Bank for the contract, which is worth an estimated \$600 million in charges for one year, the G.S.A. said.

What percentage of those charges Diners Club would retain was not disclosed. Banking analysts estimated that an average commission for Diners Club was about 2 percent.

The contract, which has four one-year renewal options, becomes effective Nov. 30 when the G.S.A. credit card agreement expires.

next five years.

John Keffe, a banking analyst for Drexel Burnham Lambert, said he could not place an exact value on the contract without knowing its specifics. But he called it a "nice piece of change which could multiply as other Government agencies join the program."

Gary Tobin, a spokesman for American Express, said it would not be appropriate for it to comment on the contract because the company had not been notified of the award. American Express handles more than \$80 billion in charges a year.

John Alderson, G.S.A.'s acting administrator, said in a statement that the use of accepted business practices, like commercial credit cards, could help the Government to manage more effectively its financial resources.

The G.S.A. said the credit cards are used only for official travel expenses. Under the program, employees receive bills from Diners Club and pay the credit service company directly.

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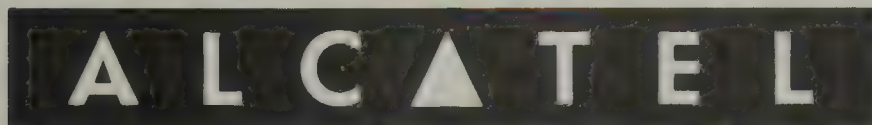
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***Formerly ITT Business Communications Corporation and Thomson CSF Operations.

The Forbes Four Hundred

Charlie: "I have hunches." Invested heavily in Chicago, Kansas City real estate with Arthur Rubloff. Herb's son Herbert A.: 47. Divorced, remarried; 4 children. Joined firm 1962; defied father's advice buying 6% Columbia Pictures 1973; raked in \$40 million on 1982 sale to Coca-Cola. Expanded into underwriting (including Coca-Cola Enterprises), investment banking (steady client: Rupert Murdoch, *which see*). Allen & Co. secretive, active. Reportedly raised stake in new Columbia Pictures Entertainment. Herbert A.: "We're long-term speculators." Family donated \$15 million to NYC's Columbia-Presbyterian Hospital. With stakes in over 200 companies, real estate, shared fortune at least \$1 billion.

Harry Howard Hoiles

Mary Jane Hoiles Hardie

Brother and sister. Publishing. Children of Raymond C. Hoiles (d. 1970), \$2/week printer's assistant bought Bucyrus (Ohio) *Telegraph-Forum* 1927, *Santa Ana Register* 1935. Freedom Newspapers now 29 dailies, 3 weeklies, 5 tv stations. Chose company name "because freedom will live on forever, and the Hoiles name will be forgotten in a short time." Spread libertarian philosophy: opposed taxes, public schools, etc.; escaped two bombing attempts. Three children inherited, son Clarence headed until 1981; death led to family dispute. Harry: Santa Ana. 72. Married, 3 children. Longtime publisher *Colorado Springs Gazette Telegraph*, sued for control 1982, offered to buy outright for \$1.01 billion 1985. Mary Jane: Marysville, Calif. 66. Married, 4 children. Harry still fighting but Freedom Chairman Robert Hardie (Jane's husband), Clarence's heirs unwilling to split up chain. Each branch holds one-third; combined worth at least \$1 billion. "Nobody can hate each other the way families can."

Thomas Mellon Evans

Investments. NYC. 78. Divorced, widowed, remarried; 3 children by first marriage. Graduated Yale; introduced to business by distant rel-



**The metropolitan areas
with most resident mem-
bers of The Forbes Four
Hundred are:**

New York City, 79

Los Angeles, 33

Dallas/Fort Worth, 21

Chicago, 20

San Francisco Bay area, 18

Washington, D.C., 12

Boston, 10

Detroit, 9

Houston, 9

Minneapolis, 9

Seattle, 9

Philadelphia, 8

ative, Gulf Oil boss W.L. Mellon; career as acquirer of undermanaged companies. Turnarounds include bankrupt H.K. Porter 1938, Crane Co. from 1959; over 80 others. Relishes current era: "Takeovers weren't respectable. Now they are." Resigned as head of Crane following losing battle with board, son Shell; Shell now heads. Sold his 22% Macmillan stock against son Edward's pleas; Edward still head Macmillan. Retains control H.K. Porter, major holdings Crane, Fansteel, etc.; horses, bonds, art. Thomas' net worth estimated at least \$330 million.

Hugh Franklin Culverhouse

Real estate, banking, football. Tampa. 69. Married, 2 children. Son of coal mining engineer; encouraged

to study accounting, law. IRS prosecutor, then premier tax attorney; clients including Richard Nixon. Paid \$12 million for Palmer Ranch, 11,500 prime Sarasota acres 1970; sold half for \$35 million 1981; developing. Also 5,300 acres citrus, other Florida real estate. Lost third takeover attempt Florida Commercial Banks, but \$22 million profit. Trying again with \$71.9 million purchase Coast Federal S&L 1987; awaiting federal approval. Awarded NFL expansion Tampa Bay Bucs 1974; dubbed "Pinstripe Rambo" for efforts to break strike last year. Net worth at least \$330 million.

Donald John Tyson

Barbara Tyson

Tyson Foods. Brother, sister-in-law. Fifth-generation farming family started Tyson Feed & Hatchery 1947. Changed name to Tyson Foods Inc.; went public 1963. Family plagued with tragedy: Don took over when parents died in auto accident 1966; Barbara inherited when husband Randal accidentally choked to death 1986. Aggressive acquisition, innovation put company past \$1 billion mark 1985; nearly doubled by 1987: \$1.8 billion. Nation's leading chicken outfit; also hogs, frozen Mexican food. Nearly all execs must wear khakis: "If we all wore suits we'd sit here in the office, and we don't make money in here. We make it out in the field." Don: Springdale, Ark. 58. Married, 3 children. Barbara: Fayetteville, Ark. Widowed, no children. Don worth over \$330 million, Barbara over \$265 million.

Stanley Stub Hubbard

Broadcasting. St. Mary's Point, Minn. 55. Married, 5 children. Father Stanley Eugene, 91, founded nation's first (but unsuccessful) commercial airline. Built one of Minneapolis' first radio stations 1923 (WAMD—"Where All Minneapolis Dances"), added tv 1948. Son Stanley Stub took over 1981 after Dad's stroke; Hubbard Broadcasting now 6 tv, 2 radio stations. Pioneering satellite tv: owns transponders; satellite news service with over 100 member stations; satel-

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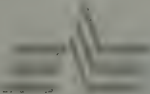


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lite-borne program distributor
TV. Believes pay satellite will
replace cable: "The best buy in
communications in the next de-
cade." His fortune, in trusts, worth
at least \$330 million.

Bennett Stephen LeBow

Buyouts. Saddle River, N.J. 50. Married, 2 daughters. Graduated Drexel U., then on to Pentagon job. Founded computer concern DSI Systems 1967. Almost went under, but "Ben" learned art of turn-around. Hit big time with lightning speed. Paid Asher Edelman \$101 million for cast-off computer unit 1985; took public 1986, his 54% MAI Basic Four recently worth \$160 million. Snared Liggett & Meyers Tobacco for \$137 million 1986; took public, lost first-ever cancer suit; eyeing American Brands. Doesn't smoke: "It was strictly business." Leading Western Union turnaround, has one share that becomes 100 million when WU shows profits. Yachtsman, scuba diver worth \$330 million.

Jerome Spiegel Kohlberg Jr.

Henry R. Kravis

George R. Roberts

Partners, leveraged buyouts. Three dealmakers left Bear, Stearns for own firm 1976; prowled for undervalued companies to buy with "junk" bond leverage. Stunned Wall Street repeatedly with first buyout of Big Board firm (Houdaille Industries for \$355 million 1979), first \$1 billion deal (Wometco 1984), largest LBO ever (Beatrice for \$8.4 billion 1986). Total purchase price on over 30 deals to date: \$35 billion. Firm collects 1% investment banking fee, 20% of profits when sold, 1.5% management fee on KKR investor fund (now \$5.6 billion). Jerry: Mt. Kisco, N.Y. 63. Married, 4 children. New York-born lawyer, Harvard M.B.A. "Patriarch" left group 1987 for own firm, still KKR limited partner: "I'll stick with the deals where reason prevails." Henry: NYC. 44. Divorced, remarried; 3 children. Son

of Tulsa oil geologist, first cousin of Roberts. High-profile giver, eats up NYC social scene (Met, ballet boards). On one deal: "We wanted the public to feel KKR wasn't in it for the last dime and screwed them." George: San Francisco. 45. Married, 3 children. Hates NYC, runs SF office with brother-in-law Robert MacDonnell. After allowance for lesser partners, their portions of KKR, even without last dime, now believed worth at least \$330 million each.

Henry John Heinz III

H.J. Heinz Co. 50. Fox Chapel, Pa.; Washington, D.C. Married, 3 children. Great-grandfather H.J. Heinz bottled, sold horseradish Sharpsburg, Pa. 1869. Heinz & Noble founded 1869 with partner: went under. Re-emerged 1888 as H.J. Heinz Co., became condiment king, food giant (Weight Watchers, Star-Kist, Bumble Bee, Ore-Ida brands). Serves more than 100 countries and territories; fiscal 1988 sales \$5.2 billion. H.J. Heinz II

WHY RENT A MEETING ROOM



The Forbes Four Hundred

(d. 1987) disbursed \$300 million of family fortune to charities. H.J. III two-term Republican Pa. senator. Yale 1960, Harvard M.B.A. Headed Pa. delegation to GOP Convention 1988. Legislated mandatory retirement age repeal, private pension reform, parts of 1988 trade bill. His Heinz stock, other investments, worth \$330 million.

Leonard Maximilian Marx

Real estate. Scarsdale, N.Y. 84. Married, 3 children. Yale brokered properties for chain stores 1920s, later shopping centers. Began building malls nationwide; now over 200 centers, building 1 or 2 per year. Few properties in Marx name; little debt: "We lose our own money." Made executives rich by giving small equity pieces: "Biggest mistake I ever made. They'd quit, move to Palm Springs and come in wearing sports shirts and laugh at me." Also NYC properties; son, daughter in business. Plays "high caliber" bridge with Larry Tisch, Milt Petrie (*see both*); swims twice a day. "I



24 members of The
Forbes Four Hundred are
immigrants.

don't know how much I'm worth and I don't give a damn." Estimated at least \$330 million.

Jan Woodner

Real estate, art. NYC. 85. Divorced, 2 children. Harvard-educated architect. Under Robert Moses, designed Central Park Zoo, N.Y. World's Fair buildings 1939. First apt. project 1943: 110 units Wilmington, Del.; then low-income, FHA-financed D.C. project: "No one wanted to build low-cost housing for black people. So we did." His Jonathan Woodner Co. now 3,500 units New York, 1,400 D.C., etc. Collects art: master drawings collection tours worldwide; accomplished painter. "If I didn't collect art, I'd be a tycoon." Son Jonathan died in plane crash 1988. "Big" Woodner worth over \$330 million, art alone estimated \$125 million. "If you're going to be in real estate, plan to live a long time."

Lawrence J. Ellison

Oracle Corp. Atherton, Calif. 44. Divorced, 2 children. U. of Chicago; M.S., physics. Started as pro-

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The Forbes Four Hundred

grammer, Amdahi; systems designer, Ampex. With \$1,200 founded Oracle 1977, tiny office in Santa Clara, with Ampex boss Bob Miner. Learned from published IBM paper about Sequel, language for database management, beat IBM in marketing the product. Sales skyrocketed. Occasionally rides bike to work, endures 60-hour week; success credited to "exceptional people." Side investments mostly high-tech stocks, but has shares in cake co. "If there is a downturn in technology, people will still be eating cake." Stock worth \$330 million.

Richard Louis Duchossois

Manufacturing, media. Barrington Hills, Ill. 67. Widower; 2 daughters, 2 sons in business. After Army WWII, joined father-in-law's small Thrall RR equipment manufacturing firm. Anticipating railroads' decline, diversified into ordnance, etc. as Duchossois Industries (sales over \$700 million). Thrall still lead-



At least 28 members of The Forbes Four Hundred own 30% or more of at least one professional football, baseball or basketball team.

ing freight-car maker; also owns largest maker garage door openers, radio stations, 1 tv station. Separately owns Hill 'n' Dale horse-breeding farm. Bought Arlington Park racetrack 1984; (it burned down) plans 1989 reopening. Bought Quad City Downs track (it was reportedly for \$5 million. Not sure if at least \$325 million.

Sydney Mark Taper

First Charter Financial Corp. Los Angeles. 87. Widowed, 3 children. Born in Warsaw, educated England. Peddled candy to classmates, real estate to British during Depression. Worked in real estate development in London area; end run around WWII: came to California 1939 with about \$1.5 million in capital. Built GI housing, went into thrift business; founded First Charter Corp. 1955. Very demanding, tough boss. Thrifty: "In England we despised waste. Waste was evil." First Charter became third-largest S&L in U.S.; merged with Financial Corp. of America 1983. Mark's share: \$285 million. With return, investments, net worth now estimated at least \$325 million.

Austin Edward Guirlinger

Modular homes. Columbus, Ohio. 62. Married, 5 children. Worked night shift on GM assembly line 1940s, decided to apply mass production to home building. Founded Cardinal Industries in his garage 1954, made housing components. Began making basic 12-by-24-foot modules 1970. Used for apts., then motels, retirement villages, etc. Cardinal now nation's 2nd-largest residential builder: 53,000 apts., 18,000-room Knights Inn chain; \$700 million revenues. Totally integrated: buys land; installs, rents, manages modules; finds or sets up investor partnerships; finances the whole thing. "I'm a great believer in controlling your own destiny." His 98% Cardinal worth estimated \$325 million.

James Lawrence Walton

Wal-Mart Stores. Bentonville, Ark. 66. Divorced, 2 daughters. Operated small five-and-ten store in Missouri. Joined older brother Sam (which see), whose merchandising concept of large discount stores in rural towns took off. Brothers expanded chain to 16 stores in next 10 years, became Wal-Mart 1962. Mastered logistics of supplying, managing large chain; went large scale: now 1,200 Wal-Mart stores, 1988 sales \$15.9 billion. James (Bud) low

profile, quiet, ran real estate. Now: Senior vp gone fishin'; prefers solitude of fisherman's boat in Venezuela, Alaska, etc. to Bentonville headquarters. His 10.3 million shares of Wal-Mart stock worth about \$320 million.

Paul Fireman

Reebok International Ltd. Newton, Mass. 44. Married, 3 children. Ran family's wholesale sporting goods business. Searched for new business; found Reebok, 80-year-old British shoe co.; established Reebok U.S.A. 1979. Bought out parent company 1985. Fireman's idea: athletic shoes for aerobics. "There was a social change going on that nobody had noticed." 1987 sales, \$1.4 billion. "We combine a little risk with a lot of study and preparation." Bought shoe companies. Rockport 1986, Avia and John A. Frye 1987, Ellesse USA 1988. Pro-human-rights Reebok spent \$10 million on Amnesty International concert tour 1988. Lost battle for (football) Patriots 1988. Stock alone worth \$320 million.

Howard Brighton Keck

William Myron Keck III

Uncle, nephew. Superior Oil Co. Descendants of William M. Keck Sr., Tex. wildcatter during 1901 Spindletop boom; said to taste-test drilling-core samples. Founded Superior Oil 1921, made it premier independent oil co., with largest reserves; pioneered Venezuela, La. fields. Two sons fought over succession; after failing to sell co. 1959, William Sr. picked younger son, Howard, as CEO. William Sr. died 1964. Howard: Los Angeles. 75. Married (embroiled in bitter divorce), 4 children. CEO from father's death until 1981. Took company through ill-fated mining, farming, timber diversification efforts; forced off board during family feud 1983. Superior sold to Mobil 1984 for \$5.7 billion. Howard now heads Keck Foundation, financed \$70 million Keck Observatory, world's most powerful telescope, built atop Hawaiian volcano. Minimum net worth: \$315 million. William III: Los Angeles. 46. Divorced, 3 sons.

The Forbes Four Hundred

Son of William Keck Jr. USC grad, now heads Coalinga Oil Co. Backed Bob Dole's short-lived presidential campaign. Wealth estimated at \$245 million.

Jack Monteith Berry

Citrus. Winter Haven, Fla. and Blowing Rock, N.C. 71. Married; 1 son, 2 daughters. Native Tennessean, took public speaking lessons to lose accent; went to N.Y. at age 22, set up fruit brokerage business, earning \$75,000 when he turned 30. Came to Florida in 1960s, snapped up orange groves at "outlandish" \$1,500/acre; some land now worth about \$12,000/acre. One of last independent growers; has 20,000 acres groveland (most south of freeze zone), 3 plastics plants, 1 box plant. Doesn't like to sell; considers himself "a buyer": "What few things I have sold in my life, I've always been sorry." Enjoys yachting trips with family (who all live in Winter Haven). Net worth at least \$315 million.

Marshall Naify

Robert Allen Naify

Brothers. San Francisco. Movie theaters, cable tv. Lebanese immigrant father started in Atlantic City 1912 with nickelodeon; moved to Calif., launched small West Coast movie circuit: United California Theaters. Sons worked as ushers, projectionists; later headed co., bought 50% United Artists Theater Circuit 1950; took control after 1963 merger. Also in 1950s: pioneered cable systems. Co. highly decentralized; "SF's best kept corporate secret" when Naifys sold out to Tele-Communications Inc. 1986 for \$150 million cash, 14 million TCI shares. Marshall: 68. Married, 3 children. Works out of Pacific Heights home in sweatsuit; accused by sister in 1977 mismanagement suit of wearing monk's robes, receiving messages from God on FM radio; quit as chairman 1978, resumed job in 1982. "Oddball" to few who know him. Robert: 66. Married, 6 children. Mild-mannered; press-shy; ran co.'s day-to-day affairs; now TCI senior vp. Brothers own stake

in Todd-AO film postproduction co. Their joint fortune estimated at least \$630 million.

Jean Bernhard Buttner

Inheritance. NYC. 53. Divorced, 3 children. Daughter of Arnold Bernhard, Value Line, Inc. founder (d. 1987). After job as *Time* drama critic, Arnold moved to Moody's Investor Service, fired during Depression. Formed Arnold Bernhard & Co. 1931; developed standard formulas for evaluating stocks, Value Line now leading investment adviser service (\$70 million revenues). Jean named pres. 1985; succeeded father amid controversy. With brother's shares, substantial family money invested in Value Line mutual funds, worth at least \$315 million. Family owns Bahama island devoted to ecological research. "She was the last resort to keep the company in the family."

Leonard Samuel Skaggs Jr.

American Stores Co. Salt Lake City. 65. Married, 4 children. Grandfather opened Skaggs Cash Store, Idaho, 1915. Six sons (all known by initials: O.P., M.G., L.L., L.J., S.A., L.S.) took over, expanded into Safeway chain. L.S. Sr. acquired Payless drugstores on own 1939; started Skaggs Co. L.S. Jr. joined at 14, took over 1950. With Joe Albertson (*which see*), successful idea 1970: drug/grocery store combination. Amicable split 1977; American Stores now sales of \$14 billion. Personal shopping spree: bought Jewel Cos. for \$1.1 billion; pending \$2.5 billion merger with Lucky Stores. "Sam" reclusive; searching for successor so he can retire. Worth at least \$310 million.

Raymond L. Danner

Shoney's. Nashville. 63. Divorced, remarried; 2 sons (1 deceased), 2 daughters. Born in poor section of Louisville, delivered newspapers for 25 cents a day. German immigrant father died leaving teenage Ray to support family. After WWII bought supermarket with friend for \$7,000. Then bowling alley, drive-in theaters; opened Shoney's coffee



Among members of The Forbes Four Hundred, the following have fortunes derived in whole or in large part from beer and pizza.

Beer:

**August A. Busch Jr.
Lydia Kalmanovitz
John E. Anderson**

Pizza:

**Thomas Monaghan
Marvin Schwan
Luigino Paulucci**

shop in 1959. "I could see the post-war years would be the years of families on the move, of eating out." Added Mr. D's seafood (later Captain D's) 1969, Lee's Famous Recipe 1981; now over 1,500 restaurants, 44 motels in 14 states. His "mystery shoppers" squeal on slow service, lukewarm coffee. Stock, real estate worth \$310 million.

William Robert Berkley

Food processing. Greenwich, Conn. 42. Married, 3 children. Father died when Berkley was 11. "I was going to show the world." Delivered newspapers, cut lawns; at age 12 bought \$112 of Decca Records stock at \$16 a share; later sold at \$45. "I was already hooked." Whiz kid money manager at NYU, Harvard B-School 1960s; his Berkley Dean & Co. ran \$23 million by time

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The Forbes Four Hundred

Berkley was 23, public as W.R. Berkley (specialty insurer) in 1973. Launched Finevest Services 1979, now \$2 billion holding co.: dairy products (Pet milk, etc.), frozen food, food concessions, insurance; owns 80%-plus. Long-term, recession-proof investor: "A quick move here or there doesn't win the game." With other assets, worth at least \$300 million.

Arthur Bejer Belfer

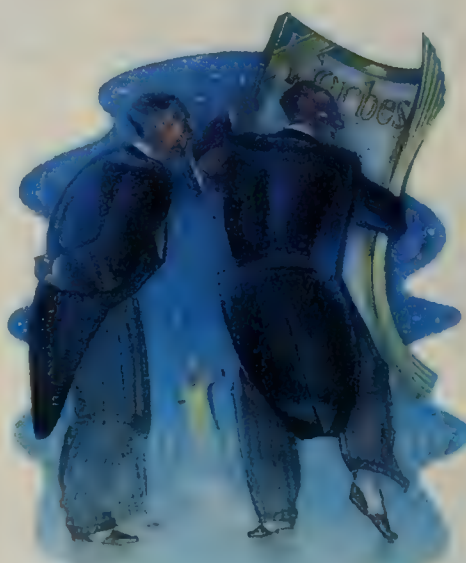
Oil, real estate. NYC. 81. Widowed, remarried; 3 children, 2 stepchildren. Immigrated from Poland, WWII. Made sleeping bags for Army until 1952, switched to oil & gas. Went public as Belco Petroleum Corp. 1959. Developed large oil base in Peru, also diversified into domestic natural gas, coal mining. Family pursued expensive oil venture in Israel 1969; unsuccessful. Friendly takeover 1983 by InterNorth (name since changed to Enron). "The name of the game in business is money. If the price is right, we'll sell." Arthur, son Robert, 53, both Enron directors. With stock, NYC real estate, worth at least \$300 million.

John Quentin Hammons

Holiday Inns. Springfield, Mo. 65. Married. Taught school, worked on Alaskan highway; after WWII, concrete venture failed leaving him in debt. Started building homes, shopping centers. First Holiday Inns franchises with partner Roy Winegardner 1959. Built 31 hotels, sold to Holiday Inns for stock 1970, recently sold stock. (Roy later HI chairman.) Continued building, now owns 40 hotels, manages additional 16,800 rooms. Owns real estate across country, but especially Springfield (Bob Hope—"It won't be long before this town is known as Hammons, Mo"). Also, small businesses: bank, pro golf course development. Founded heart institute. Net worth over \$300 million.

Miller Nichols

Real estate. Prairie Village, Kans. 77. Widowed, remarried; 4 children, 2 stepchildren. Father Jesse



715 persons have been listed at least once in the six editions of The Forbes Four Hundred to date.

Clyde began buying land Kansas City 1904. Foresaw auto age: developed idyllic communities with provisions for garages, filling stations. Built 55-acre Country Club Plaza, first suburban shopping center, 1922. Son Miller CEO 1950. Major holdings in KC, Des Moines, St. Louis, Fla. Took firm private in 1984. Known as staunch conservative. Banned break-dancing from shopping center, spurring cries of racism. Owns some 67% J.C. Nichols Co.; relinquished 30% to employees through ESOP last February: "I'm not going to be around forever." Worth over \$300 million.

Betsey Cushing Roosevelt Whitney

Inheritance. Manhasset, N.Y. 80. Divorced, widowed; 2 children by first husband. Daughter of noted brain surgeon Harvey Cushing. Married James Roosevelt, eldest son of FDR. President's "favorite daughter-in-law," often White House hostess. Divorced 1940. Remarried 1942 to John Hay (Jock) Whitney, editor of *New York Herald Tribune*, ambassador to Court of St. James's and heir to 19th-century oil, tobacco, land and railway fortune; died 1982. Betsey active philanthropy; impressive art collec-

tion (exhibited at National Gallery 1983). Lives quietly on 500-acre Long Island estate. Trusts, art, real estate, etc. believed worth over \$300 million.

Theodore Nathan Lerner

Real estate. Chevy Chase, Md. and Palm Springs. 62. Married, 3 children. Father born Palestine; D.C.-based department store exec. After Army, law school, with \$250 in savings Ted sold, built suburban subdivisions. At age 32, tapped by local biggie Homer Gudelsky to co-develop 1 million sq. ft. D.C. mall 1960: "I guess he just wanted to give a young guy a break." Also office space, 6,000 apts.; owns half Washington Square building in downtown D.C. Building 5 million sq. ft. Tysons Corner II complex McLean, Va. Bid for Baltimore Orioles (baseball) 1975; backing D.C. bid for expansion club. Worth estimated at least \$300 million.

Robert Charles Joseph Edward Sabatini Guccione

Publishing. NYC. 56. Twice divorced, remarried; 5 children. Brooklyn-born accountant's son, moved to Rome to paint at 18. Was freelance cartoonist; started *Penthouse* London 1965, moved to U.S. 1969. Big hit with first glimpse of pubic hair. Sales limp lately, blames VCRs: "There's only so much time the public has to entertain itself." Diversifying—General Media Intl. now 19 titles including *Omni*, *Four Wheeler*. Bought *Saturday Review* 1987, plans "the central magazine of American culture." Sold unfinished Atlantic City hotel/casino at a loss. Fortune in publishing, real estate and art worth over \$300 million. Bob's father: "I had hoped someday he'd be a famous painter."

David Theodore Chase

Real estate, investments. West Hartford, Conn. 59. Married, 2 children. Born David Ciesla in Poland; escaped Nazi death camp march that killed parents, sister. To U.S. 1946; door-to-door salesman speaking six languages. Became small-



Ready in the sun.

ORLANDO



STOUFFER ORLANDO RESORT
Orlando, Florida

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Three days and two nights.

Includes luxurious oversized guest accommodations. One-day passes for *two adults* to be used at *any two* of the following attractions (total of four tickets):

- Walt Disney World® – Magic Kingdom®
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Round-trip transportation for two adults to any two of the above attractions. One-day pass for one child to our supervised children's activity center. Complimentary coffee and newspaper with your wake-up call. Use of the Stouffer Athletic Club and tennis facilities.

\$394 per couple
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Attraction tickets and transfers included.
\$105 for each additional adult.
Each child 3-9, add \$72.

THE "WORLDS" BREAKATION

Five days and four nights.

Includes luxurious guest accommodations. Four-day passport for two adults to either Walt Disney World Magic Kingdom or EPCOT Center. One-day admission for two adults to Sea World. Complimentary use of the Stouffer Athletic Club and tennis facilities. Round-trip transportation for two adults for four days to Walt Disney World and one day to Sea World. Breakfast buffet each morning. Welcome beverage/cocktail. Coffee and newspaper with your wake-up call.

Four nights, \$960 per couple
Additional \$195 per child
Five nights, \$1,103 per couple.
Additional \$202 per child
Six nights, \$1,245 per couple
Additional \$210 per child
Seven nights, \$1,388 per couple
Additional \$217 per child.
December 30, 1988 – April 30, 1989

Walt Disney World, EPCOT Center, and Magic Kingdom are registered trademarks of Walt Disney World Co

SCOTTSDALE



STOUFFER COTTONWOODS RESORT
Scottsdale, Arizona

THE SUNSATIONAL BREAKATION

Three days and two nights.

Includes deluxe two-room suite with private patio spa, continental breakfast with wake-up call, and daily luncheon for each person. Adjacent to exclusive Borgata Shopping Village.

\$199 per person, double occupancy
January 1, 1989 – May 15, 1989

THE ULTIMATE TENNIS BREAKATION

Four days and three nights.

Includes luxury Phoenix Suite with hot tub and fireplace, welcome cocktails with the tennis pro, complimentary resort tennis attire, complimentary continental breakfast served daily on your patio, video match analysis and training program strategy, daily conditioning and stretching, daily one-hour private lesson, daily one-hour match with the pro, one-hour open court time daily, daily ball machine session, doubles matches daily, and personalized home training program.

\$999 per couple
January 1, 1989 –
December 31, 1989

ST. THOMAS



STOUFFER GRAND BEACH RESORT
St. Thomas, U.S. Virgin Islands

THE GRAND EXPERIENCE BREAKATION

Five days and four nights.

Includes standard accommodations which boast a lovely garden view from your terrace or balcony, a continental breakfast each morning in our Bay Winds restaurant, a gift to commemorate your vacation, and complimentary use of snorkel gear, sunfish, and windsurfer along with six lighted tennis courts.

\$1,180 per couple
December 25, 1988 – April 2, 1989
Airport transfers and taxes included.
Extra nights available at \$270 per night.

THE ROMANTIC FANTASY BREAKATION

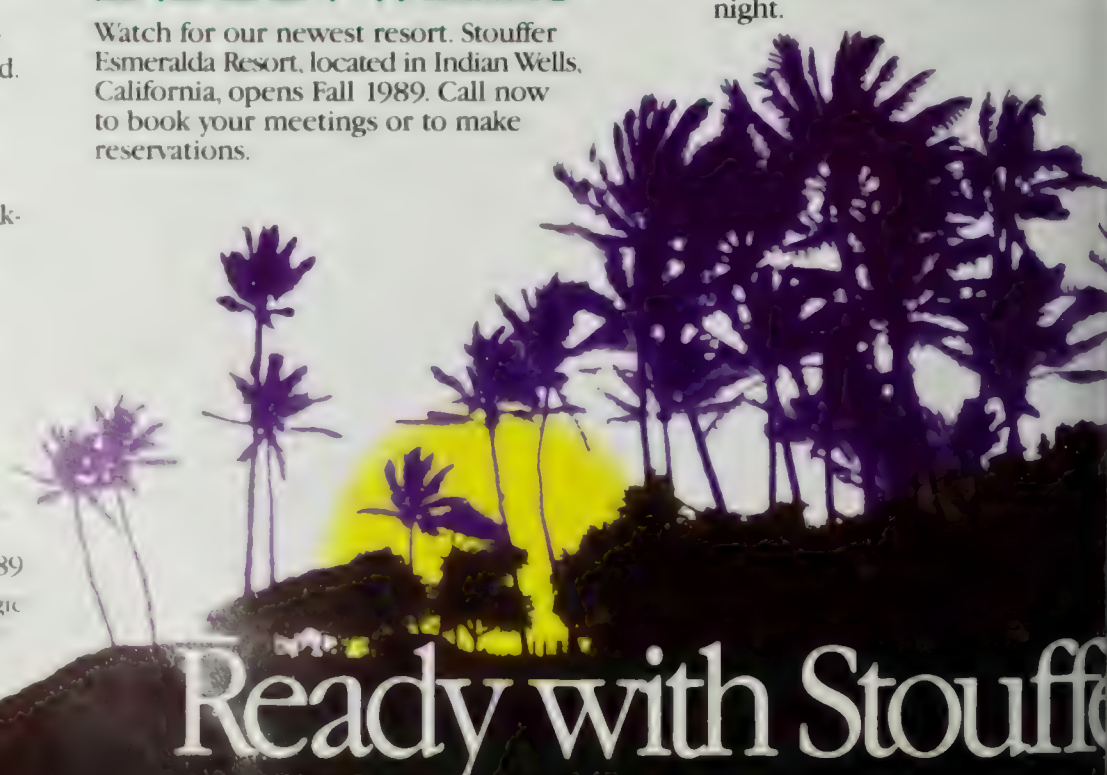
Five days and four nights.

Includes one-bedroom suite with whirlpool spa, sunset cocktail cruise, complimentary bottle of Dom Perignon, pair of keepsake glasses, one-day use of video tape recorder including a blank tape, complimentary use of snorkel gear, sunfish, and windsurfers, a morning of breakfast in bed with mimosas, a day sail with lunch, and island tour.

\$2,220 per couple
December 25, 1988 – April 2, 1989
Airport transfers and taxes included.
Extra nights available at \$430 per night.

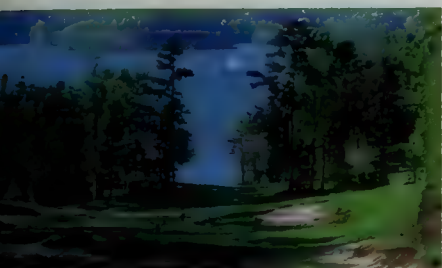
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LAKE LANIER



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THE GOLF BREAKATION

Daily packages.

Located on 1,200 acres of pine-forested, sparkling Lake Lanier, you'll enjoy our challenging 18-hole championship golf course designed by Gary Player and Ron By & Associates. Includes deluxe guest room, unlimited golf each day (second round based on availability), free cart for first round each day, plus free daily bucket of range balls.

\$130 per night, double occupancy
November 20, 1988 -

February 25, 1989

\$199 per night, double occupancy

February 26, 1989 -

November 18, 1989

Room available for \$30 extra per night.

THE SPORTS BREAKATION

Daily packages.

Includes deluxe guest room, unlimited golf each day (additional rounds based on availability), free cart for first round each day, a free daily bucket of range balls, unlimited tennis court time plus complimentary use of ball machine.

\$139 per night, double occupancy
November 20, 1988 -

February 25, 1989

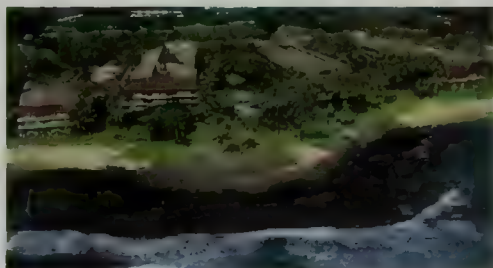
\$209 per night, double occupancy

February 26, 1989 -

November 18, 1989

Room available for \$30 extra per night.

KAUAI



STOUFFER WAIOHAI BEACH RESORT
Poipu Beach, Kauai, Hawaii

THE WAIOHAI ESCAPE BREAKATION

Four days and three nights.

Your luxury accommodations include a deluxe mountain-view guest room with breathtaking vistas of tropical mountain ranges, nightly turn-down service, and 24-hour room service. Your package includes a lei greeting upon arrival and a compact car with unlimited mileage (gas, oil, and insurance not included) for the length of your stay.

\$510 per couple

December 15, 1988 - April 15, 1989

\$450 per couple

April 16, 1989 - December 14, 1989

Extra nights, \$155 per night, including car rental.

THE GREAT ESCAPE BREAKATION

Four days and three nights.

On beautiful Poipu Beach on Kauai, you'll enjoy a deluxe ocean-view guest room with nightly turn-down service and 24-hour room service. Your package includes a lei greeting upon arrival and a luxury or convertible car with unlimited mileage (gas, oil, and insurance not included) for the length of your stay.

\$785 per couple

December 15, 1988 - April 15, 1989

\$690 per couple

April 16, 1989 - December 14, 1989

Extra nights, \$230 per night, including car rental.

MAUI



STOUFFER WAILEA BEACH RESORT
Wailea Beach, Maui, Hawaii

THE MAUI ESCAPE BREAKATION

Four days and three nights.

On Maui, you will stay in luxury at the sensational Stouffer Wailea Beach Resort, a AAA Five-Diamond award-winner for seven consecutive years. Enjoy a spacious, well-appointed guest room with private lanai and Maui's best weather on a beautiful beach. Your package includes a deluxe Ocean Side room and an air-conditioned compact car.

\$726 per couple

January 2, 1989 - March 31, 1989

\$594 per couple

April 1, 1989 - December 20, 1989

THE MAUI GOLF BREAKATION

Four days and three nights.

Play golf on Wailea's famed Blue and Orange courses. Includes deluxe Ocean Side room, where you'll enjoy soft sea breezes and views of blue ocean, plus unlimited use of an air-conditioned compact car during your stay, and two rounds of golf per person. Two challenging championship courses available. Welcoming Mai Tais and fruit plate included.

\$994 per couple

January 2, 1989 - March 31, 1989

\$804 per couple

April 1, 1989 - December 20, 1989

Extra nights, \$242 per night, including use of rental car.

Tax (except at St. Thomas) and gratuities not included. Not available to groups. Advance reservations required. Certain restrictions apply. Rates subject to change without notice.

Call your travel agent or 1-800-HOTELS 1.



Resorts 1989 Breakations



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The Forbes Four Hundred

time contractor, built stores, kept 10% of Topps discount chain 1975 (became Toys 'R' Us). Built shopping centers early 1960s, first office bldg. 1972. Chase Enterprises now 5 million sq. ft. office and retail, 6 hotels, 6 radio, 2 tv stations, 4 insurance cos., large stock portfolio. Built temple with monument to parents; lends house on property to Buddhist church. With \$100 million spun off to each kid, David retains fortune over \$300 million.

Peter Jay Sharp

Real estate. NYC. 58. Widowed, 3 children. Parents New York hotel barons 1920s (Ritz, Delmonico, Stanhope): Jesse bought 'em, Evelyn decorated 'em. Jesse died 1941, Evelyn took reins, expanded; after Princeton, Peter joined family firm. Bought posh NYC Carlyle Hotel 1967 for \$16 million, co-oped half; now home to royalty, rock stars, etc. (Nancy Reagan, meet Mick Jagger). "We're for people who don't have to worry about expense accounts." Also Manhattan office buildings, apts., etc.; stock market flings with Odyssey Partners Jack Nash, Leon Levy: Avatar Holdings, Chicago-Milwaukee Corp. Worth at least \$300 million. "If you have to count it, you're in trouble."



**Of the 124 members of
The Forbes Four Hundred
age 70 or above,
at least 54 are still
working full time.**

William Shivers Morris III

Newspapers. Augusta, Ga. 54. Married, 3 children. Father rose from bookkeeper to sole owner Augusta *Chronicle* 1955; left small paper chain to family 1967. "Billy" bought out family after lengthy lawsuit; founded Morris Communications 1970. Brother Charles started own chain, aggressively expanding. Billy: "We're friendly, we just don't talk business." Bet company on est. \$200 million high-debt deal for Jacksonville papers 1982. Denies running too-cheap operation despite editorial exodus: "Everyone was taken care of in a generous and benevolent way." In deep again: bought Naegle Billboard Co. 1985 for est. \$300 million. Estimated net worth over \$300 million.

Richard Palmer Kaleicku Smart

Inheritance, ranching. Honolulu and Waimea, Hawaii. 75. Divorced, 2 sons. Great-great-great-grandson of John Palmer Parker, Boston sailor landed in Hawaii. Hired by King of Hawaii to shoot wild cattle, married king's granddaughter with dowry of 2 acres. Assembled 50,000 more; domesticated island cattle. Today 225,000-acre Parker Ranch supplies about one-third Hawaii's beef; cost of a guided tour: \$38. Orphaned Richard raised by grandmother. Left Stanford to become Broadway baritone for 25 years before running ranch. Won estate case against 200 descendants; still up on appeal. Land, cattle, Impressionist art worth at least \$300 million. Probable heir: local prep school.

John Edward Anderson

Beer distribution, real estate. Bel Air, Calif. 71. Widowed, remarried; 4 children. Peddled popcorn outside Dad's Minn. barbershop. UCLA on hockey scholarship 1936; Harvard M.B.A., night law school at Loyola. Cofounder Kindel & Anderson law firm 1953; business bug bit 1950s, formed Ace Beverage (Bud distributor). Beverage group now \$230 million sales (Calif., Hawaii, Virgin Islands); manages "for the cash

flow." Parent Topa Equities includes banks, insurance; Century City HQ worth some \$90 million. Low key: "There's nothing to be gained by shouting from the mountaintop." Blew cover with \$15 million UCLA gift 1987. Worth over \$300 million. "I still have trouble paying 75 cents for a Snickers."

Thomas Henry Dittmer

Commodities. Lake Forest, Ill. 46. Married, 2 children. Started as runner at Chicago Mercantile Exchange mid-1960s. Mistaken purchase of 100 egg contracts saved by surprise rally, made \$165,000; bought Merc seat. Started own firm 1969; built "risk management" power Refco Group, probably world's largest futures clearinghouse, also stock index options, currencies, metals. "The Rambo of the futures industry," paid then largest (\$525,000) Merc fine for trading infractions; appealing \$30 million decision against him for stealing ex-partners' business. Press-shy, used to throw lavish parties at private Palm Beach island. With 51% Refco, large cattleyard, net worth believed over \$300 million.

Gertrude Ramsay Crain

Publishing. Chicago, Ill. 77. Widowed, 2 sons. Husband G.D. Crain (d. 1973) launched *Hospital Management* 1916, founded Crain Communications. Flagship *Advertising Age* added 1930; further expansion, now over 20 business, trade publications (*Auto Week*, *American Drycleaner*). Sons Rance and Keith run company, but "What she says goes." Big move into regional business papers, Chicago, Detroit, Cleveland. "Citizens Crain" started New York business weekly 1985, bought, folded competitor, yet to make money. Keith: "The thing I recall most from my father is that working wasn't working, it was fun." Fortune estimated over \$300 million.

Ben Hill Griffin Jr.

Citrus. Avon Park, Fla. 78. Divorced, remarried; 5 children, 1 stepchild. Born during 1910 hurricane; mule drover in father's orange

The Forbes Four Hundred

groves at age 8; started in citrus business with wedding present of 10-acre grove 1933; now owns over 12,000 acres mixed groves, 75,000 acres ranchland, half-interest in public Alico (cattle, citrus). Wears cowboy hat, patent leather shoes, enjoys running cattle in Jeep: "That's my life." Five terms in state legislature; ran unsuccessful 6-week campaign for governor with wife as running mate. Vows no more politics; constituents "will have to suffer." Worth exceeds \$300 million. Ben: "Just call me a thousand-aire."

Robert Edward Rich Sr.

Rich Products Corp. Point Abino, Ont. and Palm Beach. 75. Married, 3 children. Learned family's milk and ice cream business, bought own milk co. 1935, milk administrator WWII. Decided "the cow is a very inefficient factory." Developed idea for frozen soybean-based whipping cream, when cream froze on train ride and still whipped after thawing: new, widely sought product. Coffee Rich creamer 1960. Acquired small frozen food companies (1987 sales, \$760 million). Distributes products for institutionalized feeding. Son Robert Jr., 47, president. Owns "Cadillac" of AAA baseball league, Buffalo Bisons (set attendance record 1.2 million, 1988). Net worth over \$300 million.

George Phydias Mitchell

Oil, real estate. Houston. 69. Married, 10 children. Born Galveston, Tex.; Greek father shined shoes, washed clothes. George studied petroleum engineering, geology at Texas A&M; paid way selling stationery. After Amoco job, WWII, wildcatting with brother, bought into Mitchell Energy & Development predecessor 1960s. Now one of nation's largest independent oil & gas producers, 1988 revenues \$560 million. With wife, spent \$40 million restoring historic Galveston area: "We want to be a catalyst and impetus for people to do a better job of restoration." Civic-minded; energy consultant to Bush, Dukakis. "Greek" Mitchell's net worth, other assets at least \$300 million.

Frank Sherman Morgan

Sherman W. Dreiseszun

Nephew, uncle. Real estate, banks. Kansas City, Mo. Frank: 61. Divorced, 5 children. Sherman: 64. Married, 2 children. Frank born Kansas City 1926 to European immigrants; father was traveling salesman, dry goods dealer. After World War II, joined Uncle Sherm's sportswear manufacturer; partners happily ever after: "It's like they're married." Opened small K.C. bank 1964; built first major shopping center 1967. "Everybody laughed at Frank Morgan when he first started. Nobody's laughing now." Dreiseszun & Morgan partnership now controls K.C. banks with assets nearing \$5 billion, over 11 million sq. ft. of malls. Frank: "We're involved with many things." Sherm & Frank extremely secretive, reclusive: "It's inaccurate to say Frank Morgan maintains a low profile. The man has no profile." Pair control assets through web of trusts, straw names. Traceable wealth, mostly in others' names, worth at least \$600 million.

Armas Clifford Markkula Jr.

Apple Computer. 46. Woodside, Calif. Married, 2 children. Electrical engineer from USC, worked first at Hughes Aircraft, then Fairchild and Intel. Came across two computer freaks with homemade personal computer, but no way to mass-produce. They persuaded him to put up \$91,000, line up venture capital to start Apple. "Mike" named chairman 1977, CEO 1981. Relinquished role to John Sculley, brought in from Pepsi-Cola Co. 1983. Apple vice chairman until 1987; now chairman of charter airplane service ACM Aviation, Inc., San Jose. Enjoying semiretirement. His 6% of Apple stock, etc., worth at least \$300 million.

Albert Lee Ueltschi

FlightSafety International, Inc. Greenwich, Conn. 71. Widowed, 4 children. Lindbergh fan fulfilled dream: soloed open cockpit biplane at 16. Pan Am pilot WWII, started

flight instruction firm 1951; mortgaged home to buy first simulator 1954, went public 1968. Now trains 30,000 pilots, 2,500 technicians a year at 39 locations. Also manufactures training devices. "Al" funds Project Orbis, flying eye surgery hospital. Increased business flying, concern for airline safety sparked major growth. "I believe in this company." So does raider Paul Bilzerian, but Ueltschi owns 29% worth \$300 million, family has 6% more. "And I done it clean."



Among members of The Forbes Four Hundred over 50 years of age, the average number of children is 3.2. Among those under 50, 2.5.

Mervyn Edward Griffin

Television. Beverly Hills. 63. Divorced, 1 son. Big band vocalist, had No. 1 hit "I've Got a Lovely Bunch of Coconuts" 1950. Stints on Broadway, B movies; ever-fascinated host of *Merv Griffin Show* 1961-86. Started game show production co. 1962, first hit *Jeopardy!*. Playing Hangman with sister on car trips inspired *Wheel of Fortune* 1973; most lucrative game show ever, sold to Coca-Cola 1986 for \$250-million-plus. Merv still contributes puzzles: "I am a thick blotter of mostly useless information." Bought \$100 million Beverly Hills Hilton 1987; split Resort Intl. with



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Donald Trump (*which see*). Fortune in L.A. real estate, radio stations, etc. worth more than \$300 million.

William Lyon

Real estate. Newport Beach, Calif. 65. Widowed, remarried; 5 children. Grew up West LA; shunned school: voted "most likely to recede." High school flying lessons; Air Force pilot WWII, Korea. Rose to two-star general; 17 combat decorations. With brother launched second career building homes 1950s; William Lyon Co. now California's largest home builder (1987 sales, \$821 million). With George Argyros (*which see*) bought ailing AirCal 1981; sold to American 1986, pocketed \$30 million profit. Chief U.S. Air Force Reserve 1975-79; classic car buff: "I feel like I'm in my element." The "General" now commands fortune estimated at least \$300 million.

John Lee Cox

Oil. Midland, Tex. 63. Married; 1 son, 1 daughter. Grew up in west Texas; father worked for oil co. Graduated Rice U.; started as petroleum engineer 1946; struck out on own 1952; major early partner Joseph Gruss (*which see*). "Sprayberry King" built fortune on small interest in over 1,000 wells; now one of largest producers in state with major operations in west Texas Sprayberry Trend, New Mexico, Oklahoma, Wyoming, North Dakota; also cattle operation in Mexico. Tex Moncrief (*which see*): "John is what we call a man's man." Avid golfer. Fortune estimated at least \$300 million. "When I die I'll go to the great oilfield in the sky."

William Edward Simon

Leveraged buyouts. New Vernon, N.J. 60. Married, 7 children. Insurance agent's son; first Wall St. job \$75/week, later made \$3 million per year as head bond trader Salomon Brothers. Ford's "Energy Czar," Treasury boss: "I'm the guy that caused the lines at the gas stations." Wanting more lines for his 5½-inch *Who's Who* entry, formed LBO firm Wesray with Ray Chambers 1981. Huge profits on deals like Gibson Greetings (estimated \$80 million): "I worked on that for a whole week." Pair split, Simon



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William Coburn Cox Jr.

Jane Cox MacElree

Brother and sister. Inheritance. Great-grandfather Clarence Barron (d. 1928) bought *Wall Street Journal*, Dow Jones ticker 1902; founded Barron's 1921. Children of Barron's granddaughter Jessie Cox (d. 1982). Bill: 57. London, Nantucket. Married, 4 children. Director of Dow Jones European operations, on corp. board. Jane: 59. Newtown Square, Pa. Divorced, remarried; 7 children. Active in Philadelphia charities. Thanks to *Wall Street Journal's* great success, siblings share trusts holding Dow Jones stock worth, post-crash, some \$580 million.

Charles E. Smith

Robert H. Smith

Arlene Smith Kogod

Real estate. Washington, D.C.; Palm Beach, Fla. Charles: 87; divorced, 2 children. Russian immigrant, began building in Brooklyn, lost bundle in Depression. Moved to D.C. Lost shirt again, considered job in bar & grill; wife talked him out of it. Built rental apartments instead. Son Robert joined 1950. Together, assembled land, including railroad yard, Arlington early 1960s; built much of vast Crystal City: 41 buildings house 70,000 workers. Family holdings total 15 million sq. ft. offices, including Skyline City in Va. Charles retired, overseeing philanthropies (George Washington U., Jewish charities). Company run by formal, reserved Robert: 60; married, 3 children. Also more outgoing Robert P. Kogod, husband of Arlene: 54; 3 children. One of D.C.'s biggest real estate empires, estimated equity \$870 million.

Francesco Galesi

Real estate, telecommunications. NYC. 57. Divorced, remarried; 3 children. Son of Italian immigrant

real estate broker. After Princeton, built shopping centers with family. Bought 6-million-sq.-ft. army depot near Albany, N.Y. for \$4 million, converted to industrial-distribution complex; enlarged; now worth \$100 million. Also offices, Long Island beachfront, etc. Telecommunications ventures USCI (satellites), Argo (long distance) went Chapter 11. Trying again with Long Distance America Inc., Teltec Savings Communications, bought for \$20 million, merged into Telus, March 1988. Physical model for drinking buddy Michael Douglas' Gordon Gekko in *Wall Street*. Galesi worth more: \$290 million.



Among members of The Forbes Four Hundred over 50 years of age, the average number of divorces, separations and annulments is 0.4. For those under the age of 50, 0.4.

George Soros

Money management. NYC, South Hampton, L.I. 57. Divorced, remarried; 5 children. Born Budapest. At London School of Economics grades not good enough to make professor, emigrated to U.S. 1956. Currency trader, stock analyst; started Curaçao-based Quantum Fund, for foreign investors only, 1969. "World's greatest money

manager," enjoys 28,000% return on 1969 asset value. Hobnobs with finance ministers in 5 languages. Wrote book with insightful observation: Investor enthusiasm inflates stock prices. Ironically, bullish up until crash: lost \$800 million (but finished year up 15%). Manages \$1.8 billion, incl. his share est. worth over \$290 million.

Alpheus Lee Ellis

Banking, real estate. Tarpon Springs, Fla. 82. Married, 1 daughter. At 14, cleaned father's Alabama bank for \$8/week plus change he found in spittoons. "Dean of Florida banking" flunked college banking course, quit, bought first bank 1943. With wife, gradually bought control 17 Fla. banks, consolidated into Ellis Banking Corp. 1973 (assets, \$1.6 billion). Conservative banking, no condos or commercial loans; worked every holiday for 20 years. Sold his 56% EBC shares to NCNB Corp. for 4 million shares, lifetime job, chauffeur. His stock, real estate, other assets worth at least \$290 million. Won't retire: "I might as well worry about something I enjoy—business."

John Hammond Krehbiel Sr.

Molex, Inc. Downers Grove, Ill. 82. Widowed, 2 sons. With father and brother founded small "alley shop" 1938; invented inexpensive Molex plastic combining coal and asbestos processing wastes. Made molded plastic items (toy guns, submarines, etc.); switched to electronic components. John Sr. pres. 1957, still chrmn. Took co. public 1972. Now revenues of over \$500 million (70% overseas); 21 foreign factories. Son John Jr. now pres., brother Fred vice chrmn. "When my two sons were learning the business, I kicked their asses all over the place." Frugal, prizes "family feeling" among employees. Plays golf, racquetball; politically active both parties. Worth at least \$280 million.

Lydia Kalmanovitz

Inheritance. Tiburon, Calif. 83. Widowed, childless. German-born wife of beer baron Paul Kalmano-

The Forbes Four Hundred

vitz (d. 1987), Polish merchant marine who jumped ship in Philadelphia. Daughter of small-time merchant met Paul in front of NYC bookstore; married April 1930. Moved to Calif; bought LA bars, real estate. Invasion of thirsty GI's helped bar biz boom in WWII; Nat King Cole got started in Paul's clubs. Traded real estate for first 102 Brewery 1950s; took over many regional breweries (Pearl, Lucky Lager, Narragansett, Pabst), trimmed waste, made them work. Lydia attends board meetings; execs often lunch at her home. Her 50% of estate worth \$280 million.

Lloyd Edward Cotsen

Neutrogena Corp. 59. Bel Air, Calif. Widowed, remarried; 2 daughters, 1 son. Princeton, Harvard M.B.A. 1957; worked as archeologist in Greece. After brief stint in Navy, expelled from architecture school: "I was no good at it." Joined father-in-law's skin-care products firm 1958 "because I couldn't get a job." Low-key marketing: through drug-stores, samples in hotels. Business became leader in specialty soaps. Anticipates aging baby boomers will maintain this edge. Still avid archeologist. Daughter Tobey, 29, started Bundle of Convenience: disposable diaper, baby items delivery service in Los Angeles. His 41% interest in Neutrogena worth \$280 million.

Donald George Fisher

The Gap. San Francisco. 60. Married, 3 sons. Finance major, star swimmer at Berkeley, grad. 1950. Entered family contracting/real estate business. Moved away from it. Cofounded first Gap store with wife, Doris, 1969. Sold Levis in every conceivable size, and arranged them by size for convenience—his style of shopping. Prospered during teen-jean craze of 1970s; slowed when teens grew up. Revamped for matured audience. Acquired Banana Republic catalog operation 1983, now 103 stores; GapKids stores, started 1986, now 48 units. The family owns 41% of company worth \$280 million. "In the retail industry today, one has to be willing to change."

Samuel Joseph Frankino

Agency Rent-A-Car. Palm Beach, Fla. and Pepper Pike, Ohio. 64. Divorced, remarried; 1 daughter. Small real estate fortune accumulated 1950s-60s. Insurance agent needed car for client; Sam rented him new car bought for daughter for \$9.50 a day; realized potential business: "My daughter never did get that Impala." Rents for routine low-mileage use, competitive rates. Now up to 32,500 cars; largest insurance replacement-car rental company in U.S. "I originally



Among members of The Forbes Four Hundred residing in California and New York, the following comparisons may be made:

California	New York
avg. age	
64	65
avg. net worth	
\$479 million	\$577 million
avg. no. divorces	
0.48	0.46
avg. no. children	
2.9	3.2
no. in real estate	
12	27
no. in media	
12	10

thought we'd get up to maybe 40 or 50 cars." Drew no salary until Agency went public 1983; now takes \$225,770/yr. Avid golfer, deep-sea fisher. His 57%, other investments, worth \$280 million.

Leonard Litwin

Real estate. NYC. 72. Married, 2 daughters. Started in father's landscaping business on N.Y.'s Long Island (nurseries now valuable real estate, but horticulture still his hobby). Lenny pioneered building

high-rise apts. on Manhattan's Upper East Side; now owns at least 3,800 prime NYC rental units. Bucking co-op trend: "Everybody who has a job in New York can't spend \$500,000 on a co-op." Also Manhattan office space. Lenny mostly an unknown quantity; avoids press. Colleague: "He operates like an old-fashioned real estate man." Manhattan apts., other, should be worth at least \$275 million. Lenny: "One of these days I'm going to make it. My friends will call up and say, 'Lenny, you done good.'"

Richard Jerome O'Neill

Alice O'Neill Avery

Brother and sister. Inheritance, real estate. Grandfather Richard O'Neill left Ireland, managed friend's huge southern California ranch. Payment in kind: half the property. Grandchildren inherited 50,000-acre O'Neill Ranch 1943, much of it since sold or given away. Developed 11,000-acre Mission Viejo tract mid-1960s with Donald Bren (*which see*); purchased by Philip Morris for \$72 million. Now developing 5,000-acre planned community Rancho Santa Margarita, Orange County; headed by Alice's son Anthony Moiso. Richard: San Juan Capistrano, Calif. 64. Married, no children. "Uncle Dick" known for disheveled appearance. Ranching interests Mexico, Nevada; also Calif. restaurants. Powerful in state Democratic politics: "It's like playing at the crap table or being a big bettor on football games." Alice: Los Angeles. 71. Divorced, widowed; 3 sons, 6 grandchildren. Dick and Alice share ranch, other investments worth \$550 million.

Marshall Edison (Doc) Rinker

Cement. Palm Beach. 83. Widowed, remarried; 3 sons. Nicknamed "Doc" during sickly childhood; scotched weakling reputation by working 12-hour days to get company off ground. Started with one dump truck, fiberboard shed; weathered Depression by penny-pinching. Long hours still kept by

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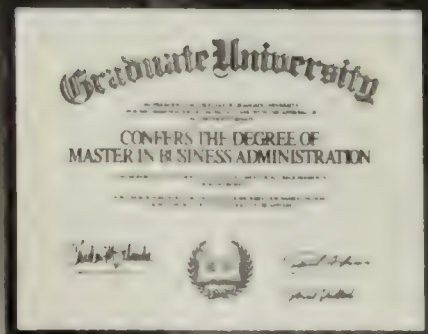


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execs.: 55-hour, 6-day week. Fla.'s largest cement co. claims to be first to offer ready-mixed concrete. Handed reins to son, 1982; reclaimed helm 1983; guided co. through several failed sales attempts. Cashed out to Australian co. in July for \$515 million. "They had the cash up front, and they spoke English." His 71% share, allowing 28% tax, \$275 million.

Joseph Morton Davidowitz

Stock market. Lawrence, N.Y. 59. Married; 4 daughters, 1 in business. Uses J. Morton Davis professionally. Father sold kosher food, vacuums door-to-door. Morty studied at Brooklyn College at night 7 years; later Harvard M.B.A. Partner old-line wirehouse D.H. Blair 1961, sole owner 1973. Set sights on small companies, new issues. High-pressure salesmen move trendy stocks in health care, biotech fields: "I want to find a cure for cancer or an aphrodisiac that keeps you aroused until you're 120." Waives fees, takes stock in best deals. Ownership D.H. Blair, large securities portfolio worth over \$275 million. "Sure the market's irrational, but in irrationality there is opportunity."

William Gordon Bennett

William Norman Pennington

Circus Circus. Partners. Bennett: 63, Las Vegas. Pennington: 65, Reno. Both married with 2 children. Bennett worked for Del Webb Corp., Pennington ran electric gaming business. Teamed up 1971 as Western Equities Co., slot machine distributor. Bought near-bankrupt Circus Circus 1974; turned profit two months later. Bennett: "I didn't think it would work." Caters to middle-class families: inexpensive rooms, meals; live circus acts. Now operates six Nevada casinos, working on seventh; considered most successful co. in gambling business. Pennington retired as pres. July, sold half his stock holdings. Chairman Bennett: "I don't know what I'd do if I retired. This is fun." Pennington cashing in at some \$240 million, Bennett at least \$270 million.

Edmund Newton Ansin

Broadcasting. North Miami. 52. Divorced, 3 children. Father was Massachusetts shoe manufacturer who bought Florida real estate 1940, Miami TV station WSVN-TV (NBC affiliate) 1962 with son for \$3.4 million. After father's death 1971, Edmund took over; strong emphasis on news, public affairs. Jolted out of publicity-shy lifestyle by NBC's purchase of local CBS station, attempt to cancel affiliation 1987. Antitrust suit against NBC, CBS under way. Will go independent when NBC contract expires in January. Oldest son runs real estate. His Sunbeam TV Corp., real estate estimated at \$265 million.

Dorrance Hill Hamilton

Hope Hill van Beuren

Inheritance. Sisters. Grandchildren of John Dorrance Sr., chemist who hit on idea for condensed soup in cans. Left then third-largest estate in U.S. 1930: Campbell Soup stock, investments worth \$129 million. One-third to John Jr. (which see), one-sixth to each of 4 daughters, now deceased; their children inherited. Dorrance (Dodo): Strafford, Pa. 60. Married, 3 children. Campbell director, runs gift shop near home. Hope (Happy): Middletown, R.I. 54. Married, 3 children. Sisters still have 13% of Campbell, other investments worth some \$500 million. Cousins, Strawbridge and Colket families, together control 9% of Campbell worth another \$300 million.

Alexis Felix du Pont Jr

Alice Francis du Pont Mills

Helena Allaire Crozer du Pont

Brother, sister, sister-in-law. Children of A. Felix du Pont, distant cousin Pierre, sided with him in family split 1915 (see other du Ponts, family), rewarded with stake in family holding company Christiana Securities. A. Felix Jr.: Wilmington, Del. 82. Divorced, remarried; 3 children by first wife, 1 by second. Son, Michael, charged, sen-

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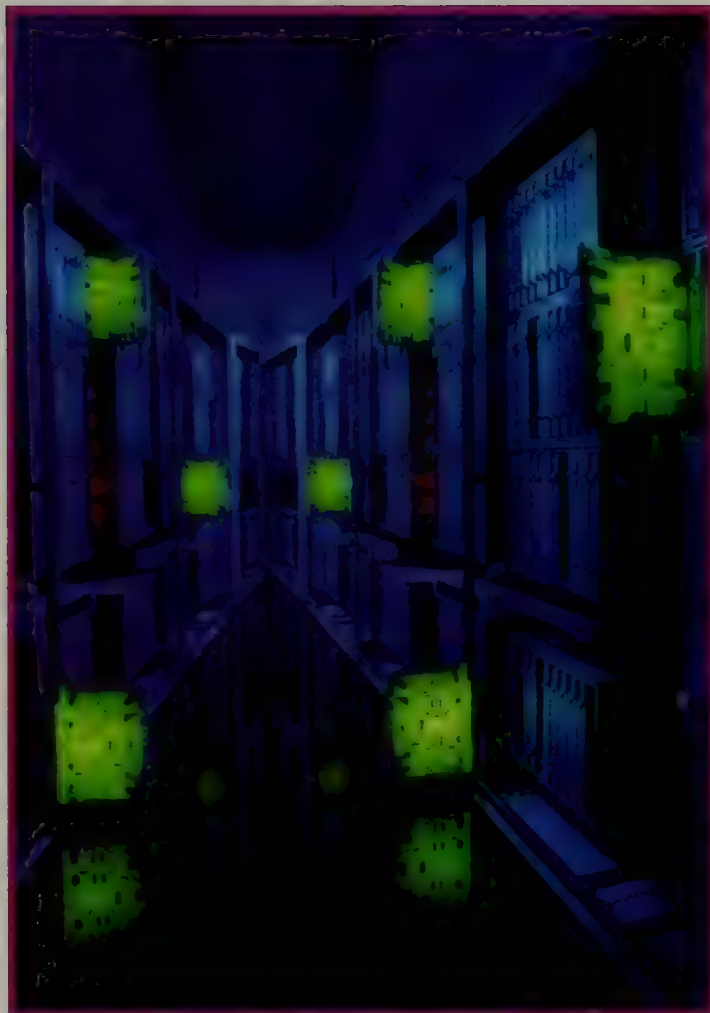
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tenced to 358 days prison, wife Peggy 179 days, for investment scam through Du Pont Energy Control: Promised "miracle" products, energy-saving devices. Part of sentence included restitution of funds to investors from Michael's trust income—aftertax. Alice (Mrs. James Paul Mills): Middleburg, Va. 75. Married, 3 children. Brother, sister have trusts believed worth about \$260 million each. H. Allaire: Chesapeake City, Md. 75. Widowed, 2 children. Husband Richard Chichester du Pont noted pilot killed in WWII glider crash. Successful horse breeder; among first women admitted to Jockey Club, 1983. With children, shares of husband's inheritance (trusts), also believed worth about \$260 million.

John Brooks Fuqua

Entrepreneur. Atlanta. 70. Married, 2 sons (1 deceased). Poor tobacco farm boy, operated his own ham radio at 14. Joined Merchant Marine 17. Bought Augusta radio station 1940; started tv station 1953. Georgia legislature 1957-62. Continual acquisitions during conglomerating binge mid-1960s. Aborted attempt 1981 to take Fuqua Industries private (within two years, FI pared down to third of 1979's \$2 billion sales). Acquired Georgia Federal Bank (assets, \$3.2 billion) 1986: "I'm just a paper shuffler; some call that a strategist." Son Rex, 40, made \$52 million on sale of affiliated Augusta cable systems 1985. With family, worth some \$260 million.

Robert Brousseau Pamplin

Textiles. Portland, Ore. 76. Married, 1 son. Raised penniless; mother made his clothes from sugar sacks. Rose to CEO of Georgia-Pacific. On day of mandatory retirement 1976 bought tiny Ross Island Sand & Gravel—base for today's \$430 million (sales) R.B. Pamplin Co. with 19 textile mills: "It's not that we were interested in textiles, but they were more undervalued than anything else." Son Robert Jr. author 7 books, working on 8th; 8 degrees (Ph.D.s: theology, business); preaches cross-country, recent speech at Pentagon on ethics.

With son, estimated worth over \$260 million. "It's just a lot of fun, and the good Lord has been very rewarding to us."

Alfred James Clark

Construction, real estate. Easton, Md. 60. Married, 3 children. Va.-born, couldn't afford Cornell tuition; studied engineering U. of Md. Field engineer for Hyman Construction 1950 (revenues then \$3.5 million), CEO 1969. Spun off non-union Omni Construction 1977. Both now part of Clark Construction Group, 3rd-largest U.S. builder, revenues \$870 million. "The King of Concrete" big D.C. builder: L'Enfant Plaza, Natl. Museum of Natural History, Four Seasons Hotel, many projects with Oliver Carr (*which see*). Rises 5 a.m. every day,



Among graduates of colleges and universities on The Forbes Four Hundred, the average estimated net worths were:

Princeton: \$763 million
N.Y.U.: \$756 million
Stanford: \$714 million
Columbia: \$629 million
Yale: \$618 million
MIT: \$584 million
Harvard: \$484 million
Yeshiva: \$375 million

exercises 2 hours, takes helicopter to work. With Clark Enterprises, stocks, real estate, net worth should exceed \$260 million.

Charles C. Butt

Grocery stores. San Antonio. 50. Single. Baptist grandma Florence founded C.C. Butt Grocery, Kerrville, Tex. 1905, lived upstairs, sold no spirits. Son Howard renamed chain H.E. Butt Grocery 1935. Charles bagged groceries age 8; Wharton 1959. Elbowed past brother Howard Jr. "If I'm going to stay, I'm going to be in charge." Texas-based chain now \$2.3 billion sales; nation's largest privately held supermarket chain. "The challenge is to get the price of Tide down." Settled predatory pricing suits estimated \$2.75 million 1985; wrongful-termination suit by Mexican-American employees, estimated \$8 million 1987. Charles: "It is clear this situation was mishandled... I regret this very much." Co. worth over \$260 million.

Craig C. McCaw

Bruce R. McCaw

John Elroy McCaw Jr.

Keith W. McCaw

Brothers. McCaw Cellular Communications, Inc. Seattle. Father John Elroy McCaw radio-and-tv pioneer in Northwest. Bought radio station in Centralia, Wash. 1937; later expanded with novel rock 'n' roll station WINS New York (now all news) and KYA San Francisco. Also tv stations, cable: headed early syndicate to wire NYC. Sudden death 1969 left widow, teenage sons, enormous debt; stations sold. Craig: 39. Married, no children. Active in co. while at Stanford late 1960s. Steered family into cellular telephones, pagers 1970s. McCaw now largest U.S. cellular telephone co. (127 franchises covering population of 47 million). Sold cable interests to Jack Kent Cooke (*which see*) for \$755 million 1987. Chairman Craig, regarded as brilliant by industry, controls family's 40% share; Affiliated Publications owns 47%, shareholders 13%. Brothers

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all vice presidents: John, 37 (married, 3 children), in charge of acquisitions. Neither Bruce, 42 (single), nor Keith, 35 (married, no children), have day-to-day role in business. All publicity shy. Snaps Bruce: "We are not public figures, and we don't intend to be." Share stock worth \$1.04 billion.

Harry Richard Horvitz

Leonard C. Horvitz

William L. Horvitz

Brothers. Inheritance. Children of Samuel Horvitz, immigrant's son who sold newspapers on street corner before founding a road construction company in 1916. Also built small Ohio-based newspaper chain. Won title to huge part of Hollywood, Fla. from bankrupt client 1929. Adversarial siblings took over businesses on father's death 1956. Harry: Cleveland, 68. Married, 3 children. Ran newspapers. Leonard: Cleveland, 65. Divorced, remarried; 2 children. Supervised construction business, although originally stripped of estate trusteeship for kicking drunk dad off his property (later reinstated by courts). William: Hollywood, Fla. 62. Divorced, remarried; 2 children. Built up real estate. Mother's death in 1977 sparked family feud. After years of name-calling, fistfights and lawsuits, court ordered property liquidation. Waiting didn't hurt market value: Papers sold to Ingersoll Publications \$418 million, cable \$222 million, both 1987. Real estate sold 1988; each brother should be left with \$260 million.

Daniel Crow Searle

William Louis Searle

Suzanne Searle Dixon

Brothers and sister. Inheritance. Great-grandchildren Gideon Searle, who bought Indiana drugstore after Civil War, founded one of nation's first drugstore chains. Began making drugs as G.D. Searle 1888. Grandson John responsible for remarkable profitability 1936-66: introduced Dramamine; first oral contraceptive; etc. Son Daniel:

Winnetka, Ill. 62. Married; 2 sons, 1 daughter. CEO 1966-77. Unfortunate record of acquisitions, image tarnished by FDA probe. Smart move: brought in former Defense Secretary Donald Rumsfeld to pick up pieces. Rumsfeld and discovery of aspartame saved company. Sold out to Monsanto 1985. Son William: Lake Forest, Ill. 60. Married, 3 children. Former vice chairman. Daughter Suzanne: Lake Forest. 57. Married, 3 children. With brothers, now active in investment of funds (substantial amount in venture capital) as Earl Kinship Capital Corp. Daniel: "We follow prudent rules any investor would, but individually and collectively we are willing to take higher risks because of sources available." Proceeds of sale, other assets worth over \$750 million.

Eugene Smith Pulliam

Publishing. Indianapolis. 74. Married; 3 children, 1 son in business. Father Eugene C. Pulliam, reporter, purchased *Atchison* (Kansas) *Champion* 1912. Bought, sold string of papers. Central Newspapers now 7 dailies (including *Arizona Republic*, *Indianapolis Star*). Recruited Barry Goldwater to politics: "I've never been interested in the money we make, but in the influence we have." Son Gene worked as reporter after WWII (Navy), publisher on father's death 1975. Nephew is vice presidential candidate Dan Quayle. Pulliam descendants control 70% of company (estimated value \$1 billion). Gene's immediate interest (including some held in trust) worth \$250 million.

Mortimer Benjamin Zuckerman

Real estate. NYC, Washington, D.C. 51. Single. Born Montreal, son of tobacco, candy wholesaler; Wharton M.B.A., two law degrees (including Harvard): "I was in the fog of youth for a long time." Joined Cabot, Cabot & Forbes 1962; left with \$5 million 1970 to form Boston Properties with Ed Linde. Built midline warehouse, office space 1970s Boston, D.C.; now controls over 10 million sq. ft.; also NYC projects. Became Mort the publish-

er 1980: bought *Atlantic*; added *U.S. News & World Report*, real estate 1984 for \$163 million. "When I take a shower in the morning, I'm thinking of *U.S. News*." Softball nut. Net worth: \$250 million. Mort: "My tendency is to go for it."

Norman E. Alexander

Sequa Corp. Scarsdale, N.Y. 74. Married, 4 children. Grew up South Bronx, son of spats manufacturer. Columbia law degree, never practiced; entered family business (it had switched to leggings). Got into film distribution, sold at profit; bought printing pigments firm, merged into Sun Chemical (major producer printing inks) 1957, became CEO, kept buying Sun stock. Snagged some 20 small companies, but missed big ones until successful Chromalloy takeover. Sun renamed Sequa Corp. 1987. Also owns Ampacet (smallish plastic resins company, Mount Vernon, N.Y.). His 67% Sequa, after recapitalization, plus Ampacet, etc., worth at least \$250 million.

David Graves Mugar

Inheritance, broadcasting. Boston. 49. Divorced, remarried; 3 children. Father Stephen (d. 1982) owned Star Market supermarket chain, sold out to Jewel Tea Co. 1964. David, onetime firechaser/photographer, had grand passion: tv watching. License for local CBS affiliate WNEV-TV came up for grabs; fought 13 years to take away from RKO General. Finally bought for \$22 million in 1982 on \$1.7 million equity. Made more profitable with shows like *Wheel of Fortune*, although still Boston's third-rated station. Rift with highbrow partners; bought out dissidents 1986. His 65% now worth \$135 million. With real estate, other interests, worth over \$250 million.

Daniel James Terra

Lawter International, art. Chicago, Washington, D.C. 77. Twice married, son by first wife. Son of Italian immigrant lithographer. Switched to engineering after losing college dance audition to Gene Kelly: "All I

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had to do was see him take the first three steps." Invented printing process that shortened press run from 25 days to 24 hours. At 28 borrowed \$2,500, set up Lawter (specialty chemicals). "The key to everything I've done is having good advisers and listening to them." Opened Chicago's Terra Museum of American Art 1987 to house \$100 million collection. Raised \$21 million for Reagan 1980; ambassador-at-large for cultural affairs 1981. Estimated worth over \$250 million.

Floyd Dewey Gottwald Jr.

Bruce Cobb Gottwald

Ethyl Corp. Richmond, Va. Sons of Floyd Gottwald Sr. (d. 1982), who joined Ethyl predecessor Albemarle Paper Manufacturing 1918 as office clerk; became president 1941. Bought out Ethyl Corp. 1962; sold Albemarle unit 1968 for \$55 million, made gasoline antiknock compound TEL, outlawed by federal lead-content laws; last U.S. plant closed 1985. Ethyl Corp. acquired, expanded way into plastic, aluminum products, bromine-based chemicals, insurance, etc. (1987 revenues, \$2.6 billion). Sons also broadening pharmaceutical business, leading U.S. producer pain-reliever ibuprofen (Nuprin). Floyd Jr.: 66. Married, 3 sons. Chairman 1968, CEO 1970. Private, "publicity shy." Bruce: 55. Married, 3 sons. President since 1969. "They treat the company like it's their own, and it is." Their 18% Ethyl Corp. worth about \$500 million.

John Arrillaga

Richard Taylor Peery

Partners. Real estate. Palo Alto. John: 50. Married; 1 son, 1 daughter. Son of spud farmer; scored Stanford hoop scholarship, later sold S. Calif. real estate. Richard: 49. Married; 3 sons, 1 daughter. Devout Mormon, sister Nancy wed Richard E. Marriott (*which see*). After Stanford B-school, ran SF properties for father; bought California fruit farms betting on Silicon Valley research boom. Partners teamed up 1967; now secretive lords of Silicon Valley R&D space, control at least

5 million sq. ft. commercial space (millions more sold off). John the builder-dealster, Dick shuffles money, paper; colleague: "Toughest businessmen I've ever dealt with." Pair live two blocks apart; John fanatic gardener, Dick avid outdoorsman. Together, Dick and John worth at least \$500 million.

Chapman Shaw Root

Coca-Cola bottler, broadcasting. Ormond Beach, Fla. 63. Married; 5 sons, 1 daughter. Grandfather Chapman Jay Root founded Root Glass Co., Terre Haute, Ind. 1901; introduced Coke bottle 1915—"the most perfectly designed package in the entire world." Formed Associated Coca-Cola Bottling Plants Inc. 1939. Root Co.'s interest: 58%. Chapman Jay died 1945. Son William died 1932 plane crash; grandson Chapman president 1950 at age 25. Cashed out bottling operation 1982 for \$417 million (his share \$240 million.) Root Communications owns 4 radio stations, 1 tv station, posh Daytona Hilton. Proceeds from sale, other assets estimated at least \$250 million.

Kenneth Harry Olsen

Digital Equipment Corp. Lincoln, Mass. 62. Married; 1 daughter, 2 sons. MIT grad; work as student liaison to IBM steered him toward computer business. Founded DEC, 1957, with \$70,000, in old woolen mill. "Technobumpkin" claims he learned management skills as Sunday school superintendent; led revolution in inexpensive, rugged minicomputers. Now third-largest U.S. manufacturer data-processing equipment. Specialty: networking systems. Staunch neo-puritan; attends prayer breakfasts Tuesdays with other Boston elite. Canoes, owns small plane. His shares DEC worth \$250 million.

Marvin Maynard Schwan

Ice cream, pizza. Sioux Falls, S.D. 59. Divorced, remarried; 4 children. German Paul Schwan immigrated to Minn. 1921; built Schwan's Dairy plant 1948. Son Marvin packaged popsicles at 14; took over busi-

ness end age 23 ("Dad was a plant man"), launched rural ice cream home delivery service. Private Schwan's Sales Enterprise now \$600 million (sales) "traveling 7-Eleven"; 1,000-rig fleet, 48 states: dairy products, frozen pizza, juices, Mex. food, etc. Bought small Kans. pizza plant 1970; now estimated \$200 million pizza volume (Tony's, Red Baron). Marvin cloaked in secrecy but has built up company believed worth over \$250 million. Spokesman: "We're adopting a Mars-like policy." (*See Forrest Mars.*)

George Leon Argyros

Real estate. Newport Beach, Calif. 51. Married, 3 children. Raised in Pasadena, decided early great wealth was his goal. Chose real estate: "If you work hard it's one of the frontiers that are left." Contractor's license after college 1962; first subdivision 1963. First apts. 1968, now owns 5,000 units. Also, commercial space, homes, raw land. Bought AirCal 1981 with William Lyon (*which see*), turned around, sold to American for modest profit 1986. Paid \$13 million for baseball's Seattle Mariners 1981; since then, worst record in the majors. Early motto, "Patience is for losers," somewhat adjusted: "Our eye is to the long run." Net worth estimated at \$250 million.

Johnnie Bryan Hunt

J.B. Hunt Transport Services, Inc. Lowell, Ark. 61. Married, 2 children. Son of Arkansas sharecropper, quit school after seventh grade to help support family; worked in uncle's sawmill factory; joined infantry WWII. Attended auctioneering school; started livestock auction house, but failed; unloaded trucks at dock to pay off debt. Hit big time 1962 with use of rice hulls for poultry litter (ground cover for fowl); got into trucking 1969 as sideline; business took off with deregulation. Sold chicken litter biz 1983; took J.B. Hunt Transport public same year. Trucking biz now 3,000 tractors, 6,000 trailers, \$286 million revenues. His 46% stock worth at least \$250 million. J.B.: "You can be a splash for a few minutes; you can't splash all day long."

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Alice Sheets Marriott

John Willard Marriott Jr.

Richard Edwin Marriott

Mother, 2 sons. Marriott Corp. Heirs of J. Willard Marriott Sr., born in Marriott, Utah; Sold woolen underwear to pay for college. With wife Alice, started root beer stand

in D.C. 1927. Opened first drive-in east of Mississippi, built chain. Rejected pioneer tag: "A pioneer is a guy with an arrow in his back and his face in the mud." Opened first hotel 1957; rapid expansion/diversification (Sun Line cruise ships, Big Boy and Roy Rogers restaurants, airport gift shops). Bought Host Intl. 1982, Howard Johnson Co. 1985; successors acquired Saga Corp. (food service) 1986. "Bill" Sr. died 1985. Alice: Washington, D.C. 81. Widow J. Willard Sr. Still vp, active Republican, backs arthritis research; co. test-marketing Allie's restaurants in her honor. J. Willard (Bill) Jr.: Chevy Chase, Md. 56. Married, 4 children. Started cooking french fries at co. restaurant. CEO since 1972, chairman 1985. "We are a by-the-book company. It's the only possible way you can run a company this size." Richard: Pottomac, Md. 49. Married, 4 daughters. Vice chairman, handles gov't relations, oversees family broadcast interests (11 radio stations sold 1987 for est. \$150 million). Family's 23% Marriott Corp., etc. worth at least \$735 million.

Jesse Mack Robinson

Banking. Atlanta. 65. Married, 2 daughters. College dropout, sold used cars; built chain of auto loan companies. "Mack" bankrolled Yves St. Laurent 1960; sold 80% stake 1966 for \$1 million. Bought or opened some 22 banks. Largest, First National Bank of Atlanta, merged with First Wachovia 1985. Self-styled miniconglomerator: lumber mills, billboards, pest control, insurance. "I'm a little operator into a lot of little things." Gradually selling out after heart attack 1986; putting money into horse farm, Thoroughbreds. Wants daughters to succeed him: "I'd like them to go into banking or insurance and stay away from places like lumber mills." Net worth exceeds \$240 million.

Robert Orville Anderson

Oil, land. Roswell, N.M. 71. Married, 7 children. With \$50,000 loan from father 1941 bought rundown



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N.M. refinery; big strike 1957. Profits bought over 1 million acres ranchland; still has some 350,000 acres. Sold Hondo Oil & Gas to Atlantic Refining Co. 1963 for \$32 million; became Arco CEO 1965, pushed for Alaskan pipeline 1970s. "Retired" 1986 to déjà vu: bought oil land from Arco for \$180 million; formed new Hondo Oil & Gas age 69. "I'm not given to a rocking chair." Merged with Pauley Petroleum 1987 for 38% stock, CEO post. Wears bowtie, Stetson hat whether in N.Y. or N.M. Worth over \$240 million in both places, too.

Fayez Shalaby Sarofim

Money management. Houston. 59. Married, 2 children. Egyptian-born son of wealthy landowner; Harvard M.B.A. Joined Anderson Clayton finance dept. 1951. Launched Fayez Sarofim & Co. 1958 with father's \$100,000, now manages \$13 billion assets. Naturalized 1961; married into prominent Texas family. Made name spotting oil bargains: owlish, ever bullish; 75% portfolio in

stocks. "There's still a lot of people making a lot of money out there." Early investor in Teledyne with George Kozmetsky, Henry Singleton (*both of which see*). His 72% of firm, large personal portfolio worth some \$240 million. "The value of a stock isn't necessarily the number in the newspaper."

George Kozmetsky

Teledyne. Austin, Tex. 71. Married, 2 children. Taught business, technology at Harvard, Carnegie-Mellon. With backing from venture capitalist Arthur Rock (*see dropouts*), cofounded Teledyne with Henry Singleton 1960. Left 1966 to return to academia; retains board seat. Dean, U. of Tex. Grad. School of Business, to 1982; still on Board of Regents. Helped establish UT's Institute for Constructive Capitalism 1977; directs and funds, with wife, RGK Foundation. Director, investor, MCO Holdings with Houston takeover artist Charles Hurwitz. Teledyne stock, other investments worth at least \$240 million.

Max Palevsky

Computers. Beverly Hills. 64. Thrice divorced, remarried; 4 children. Chicago-born son of Polish immigrant. Study of classical logic led to fascination with computer logic. Designed systems for Bendix computers for \$100 a week. Formed Scientific Data Systems 1961, backed by venture capitalist Arthur Rock; sold to Xerox 1969; pocketed \$100 million. Backed movies (*Marjoe*), magazines (*WET*, "the magazine of gourmet bathing and beyond"), venture capital. Chairman ailing \$101 million Daisy Systems (\$23.7 million deficit 1987, but \$77 million cash backup). Bond, stock portfolio, etc., should put worth over \$240 million.

Robert Donald Van Kampen

Bonds, real estate. West Chicago. 49. Married, 3 children. Dynamic bond salesman: "They called me 'the charger.'" One of first to offer insured tax-exempt unit trusts. Van



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Kampen Merritt industry's 3rd largest (sponsor of \$9 billion in trusts) when sold to Xerox, 1984, for \$185 million. Invested in real estate as inflation, tax hedge for bond holdings. Cofounded VMS Realty 1981: aggressive syndicator tax shelters, portfolio now over \$6 billion. Van Kampen's 40-acre estate stocked with elk, deer, other wildlife. Devout Christian, credits God: "My beliefs play a part in everything we do." With family, trusts, net worth estimated \$240 million.

Robert Ruliph Carpenter Jr.

Irene Carpenter Draper

Brother and sister. Inheritance. Surviving children of Margaretta L. du Pont, sister of Pierre S. (see *various du Ponts, family*). Their father, Ruly Carpenter Sr., included in formation Christiana Securities. Robert (Bobby): Montchanin, Del. 73. Married, 3 children. Director Christiana until sale to Du Pont 1977. Owned baseball Phillies, sold 1981 by son Robert Ruliph III for \$30 million. "I'm going to write a book, *How to Make a Small Fortune in Baseball*. First you start with a large fortune. . . ." Irene (Mrs. James A. Draper III): Montchanin, Del. 77. Twice divorced, remarried; 5 daughters by first marriage. Though family claims amount much less, brother, sister share with heirs of brother William (d. 1987) fortune estimated at \$720 million; Robert, Irene, with immediate families, believed worth \$240 million each.

Jack Tramiel

Atari Corp. Zephyr Cove, Nev. and Saratoga, Calif. 60. Married; 3 sons, all in business. Polish-born Kaufmann Idek Tramielski survived Auschwitz; to U.S. 1947; stints as NY cook, cabbie; founded Commodore International Ltd. computer manufacturer in typewriter repair shop 1958. Company unscathed in 1960 major Canadian financial scandal. Tramiel ousted in 1984. Tramiel walked out with \$1 million. Bought ailing computer company from Warner; cut staff, sold economy copies of Apple Macintosh; public 1986. Acquired electronics retailer 1987, su-

ing: financial statements alleged fraudulent. His 51% Atari, other assets, worth over \$240 million.

Dorothy (Dolly) Green

Inheritance. Beverly Hills. Late 70s, early 80s. Divorced, no children. Daughter of Burton E. Green (d. 1965), promoter, Beverly Hills founder, developer. Bought unwanted oil-bearing ground, cofounded Belridge Oil 1911; president 1925-65. Bought by Shell Oil in 1979 for \$3.6 billion (see *Whittier family*). Three daughters shared stake worth \$700 million; Sisters: Liliore (d. 1985); Burton (d. 1986). Horse lover Dolly forbidden by her father to race; in 1980 dropped \$2.2 million on 5 yearlings at her first auction: "I feel like I'm going to faint." Not to worry: Net worth from Belridge sale estimated at \$240 million.

Patrick George Ryan

Insurance. Chicago. 51. Married, 3 sons. Son of Milwaukee Ford dealer, salesman for 5 years with Penn Mutual. Started Ryan Insurance Group on inspiration: sell auto insurance through car dealers for a percentage. Assets exceeded \$560 million in 1982, group merged with W. Clement Stone's Combined Intl. Pat became CEO, traded 55% his firm for 11.1% Combined. Made acquisitions, renovated company, renamed Aon Corp. (Gaelic for "unity") 1987. New products, costs in group medical area restrained earnings 1987. "He's very bright, works very hard and has integrity with a capital 'I.'" Stock worth about \$240 million.

James Landon Knight

Knight-Ridder, Inc. Bal Harbour, Fla. 79. Widowed, remarried; 4 daughters. Set type for father's Akron *Beacon Journal* at 12; inherited 2 debt-ridden dailies with older brother John (d. 1981) 1933. Took public 1969, merged with Ridder family papers 1974. Knight-Ridder now owns 8 TV stations, *Miami Herald*, *Philadelphia Inquirer*, *San Jose Mercury News*. Acquired Dialog Information Services Inc., world's

largest electronic retrieval co., 1988. Two daughters trustees of Knight Foundation, among largest foundations. Joint operating agreement between K-R's *Detroit Free Press*, rival *Detroit News* now pending approval. Knight-Ridder stake worth \$240 million.

Irvin Lawrence Jacobs

Investments, takeovers. Minneapolis. 47. Married, 5 children. Son of Russian immigrant grain bag maker, joined family business after 3 days of college. At 18 "Irv the Liquidator" sold closeout goods from warehouse; bought ailing brewery 1975, liquidated for \$4 million gain. Began assembling Minstar conglomerate (boatmaking, energy services, sporting goods) 1978; raiding vehicle, exacted hefty greenmail from Kaiser Steel, Disney, Avco, etc. Less success as manager; saw Minstar earnings sink from \$30 million high to \$2 million loss since AMF acquisition 1985, recently taken private for \$400 million. Now planning \$2 billion LBO fund. Net worth estimated \$240 million.

Cliver Taylor Carr Jr.

Real estate. Washington, D.C. 63. Married, 6 children. Born blind in one eye; 4th generation local real estate family. After WWII built homes in Virginia, moved downtown 1962. Built in neighborhoods hit by 1968 riots: "The people who deserted the city were nuts." Built over 8 million square feet of prime offices: "I did it one at a time. I would build a building, it would fill up. The market was telling me something." Some preservationists fought demolition of historic Rhodes Tavern 1984, but Carr won points with Willard Intercontinental Hotel restoration. "The Tiffany of local developers" wants to bring baseball back to D.C. Fortune estimated at least \$240 million.

David Geffen

Music. Malibu, Calif. 45. Single. Born Brooklyn; faked college degree to work in William Morris mailroom. Managed folk acts; founded Asylum Records 1970. Sold to

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Warner 1972 for "biggest number I could think of": \$7 million. "Warner made it back on the next Eagles record." Warner Brothers vice chrmn. until 1976 cancer scare. Started Geffen Records 1980; didn't sell. Was home for aged pop stars, now home to "head banging" platinum-sellers; movies (*Risky Business*, *Beetlejuice*); Broadway shows (*M. Butterfly*, *Cats*). Now can think of bigger number: Record co., art, investments worth estimated \$240 million. "There's no glamour here, I'm a businessman."

Whitney MacMillan

Cargill MacMillan

Pauline MacMillan Keinath

Inheritance. Brothers and sister. Grandchildren of John MacMillan Sr., president of Cargill first third of this century. Whitney: Minneapolis. 59. Married, 2 children. Graduated Yale 1951, joined firm as vegetable oil merchant. Chairman 1977. Led grain-trading company into value-added products, meatpacking; expanded steel, flour milling businesses. Cochairman of Inst. for East-West Security Studies. Member of team that wrote 1987 ISS report re: America's best response to Soviet glasnost. Sponsored humorist Garrison Keillor's radio show over 13 years. Cargill: Minneapolis. 61. Married, 4 children. Senior vp Cargill 1973, retired August 1988. Has served on Committee of Minneapolis Society of Fine Arts; buys occasional works. Pauline: 54. Married. Not active in company. Share 25% Cargill stock, worth at least \$690 million.

W. Duncan MacMillan

John Hugh MacMillan III

Marion MacMillan Pictet

Inheritance. Brothers, sister. Children of John MacMillan Jr., who was in charge of family grain-trading company Cargill, Inc. from 1936 until his death in 1960. John Sr. became president on death of father-in-law William W. Cargill 1909, after successful struggle with William's son. Duncan: Wayzata,



To date, at least 11 members or former members of The Forbes Four Hundred, or their principal businesses, have filed under Chapter 11 of the Federal Bankruptcy Act.

Minn. 58. Married, 4 children. Cargill director, vice chairman of Waycrosse, Inc., family's private investment firm. Bought National City Bank of Ridgedale (\$56 million assets). Hugh: Hillsboro Beach, Fla. 60. At least 3 marriages (1 ex-wife was family baby-sitter); 9 children. Marnie (Mrs. Pictet): Geneva, Switzerland. 55. Divorced, remarried; 2 children. Spends most of her time outside U.S. Share their branch's 25% of Cargill, worth at least \$690 million. (See *Cargill/MacMillan family*, also other Cargills, MacMillans, Keinath.)

Arthur Edward Imperatore

Trucking, real estate. NYC. 63. Separated; 2 children, 1 stepson. One of 10 kids of Italian immigrant grocer; at age 7 delivered goods, mopped floors. Later Fuller Brush man, Western Union messenger. With 4 brothers, 2 Army surplus rigs started predecessor to APA Transport 1947; bought out brothers. APA now estimated \$125 million sales, industry profit leader.

Bought 367 N.J. waterfront acres 1981 for \$7.7 million; planning \$6 billion Port Imperial "city": "I have an idea of perfecting a piece of the world." Quizzed 1987 by grand jury investigating Ollie North; cruises Hudson River in 141-ft. yacht *Imperator*. Arthur worth at least \$230 million. "I demand respect—because I earned it."

William Block

Inheritance. Pittsburgh. 73. Married, 4 children. Father Paul Sr., newspaper ad salesman, bought Newark *Star-Eagle* 1915, built chain; forced to sell most of it during Depression. Sons, both Yale grads, took over on father's death 1941. Paul Jr. (d. 1987) was research chemist, teacher while running *Toledo Blade* (circ. 156,000). William started at *Blade*, after Army WWII took helm of Pittsburgh *Post-Gazette* 1946, supervised editorial policy. Now runs Blade Communications (est. sales, \$210 million): 3 dailies, 4 small tv stations, cable (130,000 subscribers); jointly owned by two families. William's half now worth \$230 million. "I'm sure the IRS will appreciate it."

Kenneth William Ford

Timber. Roseburg, Ore. 80. Divorced, remarried; 2 children. As a boy cut cordwood with father, \$2 a load. Bought secondhand machinery, opened own mill 1936. Collected sheriff's sale timberland at \$2 an acre in Depression. Got rich cutting on federal land, building up private timber stock. "I had to eat, I had a family." Took a big hit with govt. contracts in early 1980s timber recession. Roseburg Lumber Co. still over \$600 million sales, 760,000 acres in Ore. and Calif. Paid over \$200 million to James Goldsmith for 235,000 acres Calif. 1987. His 75% of co., held with children, worth est. \$230 million. "Ask yourself if you thought you would be where you are today."

Virginia McKnight Binger

Inheritance. NYC. 72. Married, 3 children. Only child of William McKnight, South Dakota farm boy

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Minnesota Mining & Manufacturing 1907 as bookkeeper; rose to head company 1916; stressed diversification as co.'s safety net. 3M now \$9.4 billion (1987 sales) global corp. McKnight died 1978; Virginia inherited \$500 million, \$340 million for foundation she is now honorary chairman of. Husband James, 72, headed Honeywell, Inc.; now retired, runs family's 5 Broadway theaters, Fla. horse farm. Virginia active in charity. "We're trying to solve something in this world." With 3M stock, other assets, worth \$230 million.

Richard Wesley Snyder

SnyderGeneral Corp. Dallas. 50. Married, 3 children. Singer Co. exec; made use of management experience, market conditions, to achieve employee's dream: buy out boss and make it your own. Climate control unit purchased for \$27.5 million (all but \$300,000 financed) 1982; independently appraised after deal at \$83 million. Paid off debt; started acquisition campaign in U.S., more recently overseas; sales now estimated at \$570 million. Labor spat spurred by publicity. Snyder: "I've learned a great lesson: Keep a low profile." Booming sales plus increased margins in SG's central air-conditioning business suggest company worth at least \$230 million.

Marten Selig

Real estate. Seattle. 51. Married, 3 children. Born Germany; family fled Nazis 1939. Worked in father's children's clothing store; Univ. of Wash. Had own K mart store age 30. Started building shopping centers 1962; later exclusively mid-to high-rise office buildings, often without preleasing. Opened Seattle's Columbia Center 1985; at 1,000 ft., tallest building west of Chicago (has been spotted jogging up its 76 flights). Hit market at perfect time: "I think I can say it was an accident." With 6.5 million sq. ft., owns third of all Seattle office space. Critics say he ruined the skyline: "People are jealous of anyone willing to put his guts on the line." Selig, guts and all, worth estimated \$230 million.

Murray Henry Goodman

Real estate. Palm Beach. 62. Married; 2 children, 3 from previous marriage. Army Air Corps WWII, college on GI Bill. First business, general contracting, nearly bankrupt. Then hit on shopping centers; built first mall 1965. To date, 15 million sq. ft. Sold 3 malls to Equitable for \$250 million 1986. Lives in custom-built "Mayan-inspired" mansion, plus homes NYC, Long Island, Colo. "We've all made so much money in this business." Building office towers W. Palm Beach, smaller strip centers: "They're easy." Lehigh U. naming new football stadium after him: "I didn't play football, I feel uncomfortable with that." Quite comfortable with net worth estimated \$230 million.

Alfred Lerner

Banking, real estate. Shaker Heights, Ohio. 55. Married, 2 children. Worked in family candy shop NYC (lived upstairs); Columbia U., Marines. Made \$75 a week selling furniture 1957: "I was just happy to be making a living." Small Ohio apt. deals, grew, bought 11,000 units Md., Pa. 1979 with partner Andre Meyer (Lazard Frères) for \$180 million. Director small Cleveland bank mid-1970s, others followed. "I became a student of the banking business." Hostile takeover Equitable Bancorp. 1982; cut deal with AmeriTrust for \$32 million profit 1987. Invested \$75 million, made chairman Progressive Corp. Worth at least \$230 million. "I'm not Joe Tycoon."

Crown Gene Aubrey

Broadcasting, baseball. Los Angeles. 81. Widowed, remarried; childless. Born Tioga, Tex., raised Okla. ranch; learned cowboy's three R's (ridin', ropin', ranchin') before he could read. Guitar-strummer discovered by Will Rogers ("Boy, you pick good") at Chelsea, Okla. railroad depot; later "Oklahoma's Yodeling Cowboy." Storied actor (*Tumblin' Tumbleweeds*), singer ("Back in the Saddle Again"). Bought LA's KMPC radio 1952,

others (7 radio/TV stations sold 1982-83); his Golden West Broadcasters now 4 radio stations, Calif. Angels (baseball). Net worth: \$230 million. "To tell you the truth, I even think there's room for a singin' cowboy today."

Clarence Scharbauer Jr.

Inheritance. Midland, Tex. 63. Married, 4 children. German shoemaker Ferdinand, 3 sons immigrated to New York early 1800s; son John took train, \$2,000 to Midland 1880, bought 400 sheep. Other Scharbauers followed; acquired ranchland; Scharbauer Cattle Co. founded 1901. Land in oil-rich Permian Basin; hit big in 1935; nephew Clarence Sr., "Mr. Midland," inherited, d. 1942. Now vast Texas, N.M. acreage: estimated 10 ranches, 300,000 acres (including part Goldsmith oilfield). Bought 1987 Derby, Preakness winner Alysheba for \$500,000 in 1985. Jr.: "We're horse people." Worth at least \$225 million. Clarence III on being included in the 400: "Doggone it, we're just not real fired up about this deal."

Timothy Mellon

Catherine Mellon Conover

Siblings. Inheritance. Grandchildren of financier, empire-builder Andrew Mellon (d. 1937), children of Paul (*which see*). Tim: Manchester, N.H. area. 46. Divorced, remarried; 1 stepdaughter. Started computer programming firm 1969. Founded, with partner, company to pressure-treat railroad ties 1977. Acquired Guilford Transportation for \$50 million: 4,700-mile track composed of old New England railroads. Added 1,000 miles unwanted Norfolk & Southern track after unsuccessful bid for Conrail; anti-union policies creating ire on all fronts: labor, politicians, allegedly federal inspectors; also Chapter 11 for one subsidiary (Delaware & Hudson Ry.). Catherine: Washington, D.C. 52. Twice divorced (uses mother's maiden name); 3 children by first husband John Warner (later senator). Divorce settlement: He got \$9 million, houses. Catherine antiwar activist, environmentalist. Each received \$100 million trust

The Forbes Four Hundred

from grandfather; father Paul says they have enough, will get no more from him. No problem: Conservatively invested, each should be worth \$225 million.

Arthur Ochs Sulzberger

Iphigene Ochs Sulzberger

New York Times. NYC. Grandfather Adolph S. Ochs (1858-1935), Tennessee newsman, bought *Times* 1896 for \$75,000; made it "newspaper of record." Arthur Ochs (Punch) Sulzberger: 62. Divorced, remarried; 2 children by each marriage. B.A. Columbia 1951. Joined *Times* as cub reporter same year. Several posts in foreign bureaus; publisher 1963, chairman 1973. "I was never the world's most terrific reporter. I had a greater interest in solving the business problems." Fought decline from increasing labor costs, reader flight to suburbs 1950s-60s. Revamped newspaper, expanded coverage, included profitable special sections to attract elite readers desired by advertisers. Acquisitions: 35 newspapers, 12 magazines (*Family Circle*, *Golf Digest*), 5 tv, 2 radio stations, cable tv system. "The big driving engine of our company still remains the newspaper itself," 88% of revenues. Mother, Iphigene: 96, widowed, witty, irreverent, director emeritus from 1973. Ochs trust controls New York Times Co. stock worth over \$450 million.

Richard Edward Rainwater

Investments. Fort Worth. 44. Married, 3 children. Born middle-class Fort Worth; son of part-Lebanese, part-Cherokee wholesaler. Mowed lawns, delivered papers; liked math, fast cars. Hired from Goldman, Sachs by Stanford schoolmate Sid Bass (*which see*) to diversify family oil fortune. Dealmaker extraordinaire: high-profile investments (Texaco, Disney) ballooned Bass net worth from \$100 million to at least \$4 billion. Philosophy: invest through partnerships, let executive run own show. "They know more about their businesses than I'll ever know." Left 1986 for own deals, including Ensco, Wolverine Exploration. Net worth estimated \$225 million.

Amos Barr Hostetter Jr.

Continental Cablevision, Inc. Boston. 51. Married, 1 daughter. Stockbroker's son raised in Short Hills, N.J. Harvard M.B.A., stint in utility finance; "Bud" started cable co. with frat brother H. Irving Grousbeck 1963. Each put up \$4,000 (as did Bud's father). Acquired some franchises, built some from scratch. Bought McClatchy (*see family*) cable co. 1986. Now third largest in U.S. (2.1 million subscribers). Considered going public, chose Dow Jones Inc. investment instead, now 17%. Grousbeck left for teaching 1981, his 10% appreciating rapidly: "When you put a boat in a fast current, it's going to go downstream." Bud's 28% of stream worth over \$225 million.

Christopher Bagwell Hemmeter

Hotels. Kahala Beach, Hawaii. 49. Divorced, remarried; 7 children. Graduated Cornell hotel manage-

ment school 1962; went to Hawaii. Built first hotel, Hawaiian Regent, 1971; developed \$75 million Hyatt Regency Waikiki 1976, \$68 million Hyatt Maui 1980. Sold both 1984 to VMS Realty for \$320 million. Builds De Mille fantasies—waterfalls, gondolas, botanic gardens, Greek sculpture: "I don't think Julius Caesar walked around a much nicer place." Financed \$360 million Hyatt Waikoloa with largest real estate loan in Hawaii's history. Designed Carter Presidential Library. At recent Hawaii hotel values, his equity stakes, cash worth \$225 million.

Lew Robert Wasserman

MCA, Inc. Palm Springs and Beverly Hills. 75. Married, 1 daughter. Sold candy in Cleveland movie theater; spotted by MCA founder, Jules Stein. Band booker at 23, MCA pres., 33. Agent for Hollywood stars and also actor Ronald Reagan. Acquired Universal Studios 1962; had to drop talent agency business after govt antitrust suit. MCA now diversified: entertainment co., tv, films, records, book publishing, theaters. Wasserman's surgery spurred takeover speculation 1987; suitors sought MCA's extensive real estate, film/tv library (worth more than \$2 billion). Studio tour in Fla. soon. Drop in rerun program sales (*Miami Vice*) 1988. His 7% stock, etc. worth \$225 million.

Gerald Douglas Hines

Real estate. Houston. 63. Divorced, remarried; 2 children by first marriage, 2 by second. Building systems engineer 1950s with real estate sideline: started with \$16,000 conversion of frame house into offices; went full-time 1957. Landed bid for 50-story Shell Oil office tower Houston 1966. Built famed Galleria; went nationwide 1970. Now owns buildings from Albuquerque to Boston. On the drawing board: 1-million-sq.-ft. office tower over 34th Street Post Office in New York; 9-million-sq.-ft. commercial office space on 66 acres of Philadelphia railyard. Likes top architects, prime locations. Despite continued lag in Texas, believed worth at least \$225 million.



The total estimated net worth of The Forbes Four Hundred is \$220.4 billion.

**In comparison:
Value of all the tea in China produced 1986-87:
\$1.8 billion.
GNP of China, 1987:
\$294 billion.**

As it approaches its 200th birthday, Los Angeles has evolved from a small Spanish town to one of the world's most important economic centers.

For many years, Los Angeles built its local economy on agriculture, tourism and the entertainment industry. Today, the regional economy is vast and diverse supporting industries such as aerospace, agriculture, apparel, defense, electronics, finance, information and communication systems, insurance, petroleum refining, real estate and many others. Moreover, the city's strategic location has made it the center of the Pacific Rim and elevated its role in international trade. In short, L.A.'s diversity has made its economy virtually recession-proof.

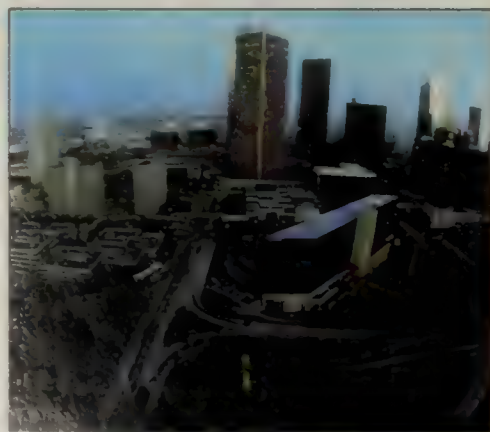
"What is happening is that California, and L.A. in particular, is the beneficiary of a fundamental shift in economic power in the world," says Jim Miscoll, executive vice president of Bank of America in Southern California. Miscoll, who is also chairman of the L.A. 2000 Committee, a blue-ribbon panel created by Mayor Tom Bradley, notes that Mediterranean cities dominated economic life in the Middle Ages, but then Venice and others gave way to economic centers bordering the Atlantic. Now, economic power is shifting again, this time to the Pacific Rim, bordered by nations in which 43% of the world's people live.

"Los Angeles is a primary beneficiary of this fundamental shift in historical economic power," Miscoll says. "It's becoming the new crossroads city of the world." L.A. is an increasingly important economic powerhouse in no small measure because it has become a gateway between East and West,

channeling flows of goods and services, capital and people, ideas and styles.

In fact, if the Los Angeles area was a nation, its GNP would rank 11th in the world. Mayor Bradley has indicated his desire to make L.A. "a world-class city," and by every measure it is well on its way in record time.

In an article published in *The Atlantic* earlier this year, entitled, "Los Angeles Comes of Age," authors Charles Lockwood and Chris-



Downtown Los Angeles is the West Coast center of finance, industry and commerce

topher B. Leinberger note, "Within the past decade, Greater Los Angeles has undergone economic, social, political, and cultural up-

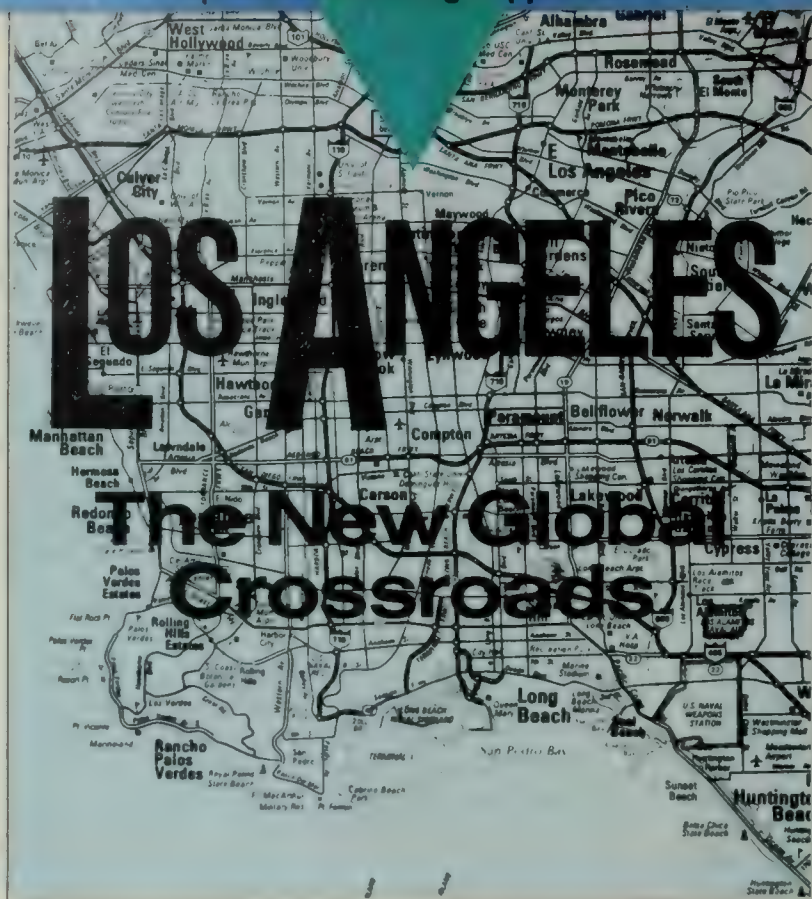
heavals deeper and broader than those experienced by any other large American city during the same period." Los Angeles has surpassed Chicago as "the second city" and trails only New York in population and economic muscle.

Los Angeles' growth is driven not only by its location, but also by demographics, says Nicholas Castner, vice president of Coldwell Banker Commercial Real Estate Services: "We expect another five million people in Southern California by the end of the

century." That's why Tom Leweck, public affairs director of GTE California, says, "We're on the verge of major new growth." He notes that GTE, which provides telephone service to 2.2 million customers in the L.A. area, added 89,000 phone lines in 1986, 103,000 lines in 1987 and 160,000 in the first half of 1988.

The days when Los Angeles was a small, provincial town, far from the nation's economic center of gravity, are long gone. Los Angeles has become a national trendsetter in entertainment and life styles, in fashion and speech. It's become a cradle for national social issues, from taxpayers' revolts to natural foods, and it's the nation's new melting pot.

All of this is facilitated by L.A.'s remarkably recession-proof economy, which sits on a highly diversified base. "The economy here operates in a narrower band of up and downs than the rest of the economy," Miscoll says. Manufacturing, services and finance are each important. L.A. businesses have an immense local market—1 million people live within 60 miles of L.A.'s City Hall—but they also serve national markets, and L.A. is an increasingly important center for international business.



TSA Capital Management shows highest return among The Wall Street Journal's eight leading money managers.

For the second straight year, TSA Capital Management, a subsidiary of Trust Services of America, has been hailed by *The Wall Street Journal* as a leading money manager in the "Money Managers Who Stood Out" annual feature.

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LOS ANGELES

Los Angeles is the nation's most important manufacturing center, measured in terms of the value of the output. It is, for example, the world's largest aerospace center, with sizable operations of Lockheed, Northrop, Rockwell International, and TRW. L.A.'s economy is so diverse that for all their sprawling facilities, aerospace provides only about 8% of the region's employment.

A wide variety of other goods are also produced in L.A. There's an automobile assembly plant, some oil refineries, and a number of garment factories—L.A. is not only a center for designing, but also producing apparel.

"There are a lot of things going on in the local economy which are quite significant but don't get any publicity," says Frank Perna, president of Magnetek. "Magnetek is a basic electrical equipment manufacturing company, and one of the fastest-growing companies in the country," adds Vice President Robert Murray. Created in a leveraged buyout four years ago, Magnetek's sales have increased fivefold, to about a billion dollars a year.

A growing portion of the area's manufacturing has a high-tech element. There are more than 2,600 high-tech companies in the L.A. area, giving L.A. the greatest concentration of high-tech industries, scientists, engineers and skilled technicians in the nation. They produce advanced military and aerospace equipment, electronic components and computers.

Manufacturing currently provides 22% of local jobs and is expected to grow in absolute size. Major manufacturing groups include the food, apparel, furniture, paper, publishing, chemical, petroleum and transportation industries.

Motion picture, television, music videos and record production have made Los Angeles the nation's entertainment capital. Despite the aura it lends L.A., motion picture and television production directly employs about 75,000 peo-



City Hall serves a city of three million residents within a regional population of 14 million.

ple in L.A. county, less than 1.5% of the region's total employment. Add in all the actors "at liberty" and earning their living elsewhere, plus all of the carpenters and hair dressers who sometimes work on movies or television shows, and entertainment is still only 6% of the region's employment.

To be sure, the streets of L.A. are full of crews shooting television or motion picture scenes. More im-

portantly, from an economic point of view, Hollywood is not always where movies are made, but where deals are made. Simpler technology and lower costs have facilitated the production of films and television shows elsewhere, but L.A. is still where the rainmakers put transactions together, where they put together the financing and negotiate the contracts. L.A. is also where the sophisticated post-production skills exist, not only to provide the musical score and editing, but to create the publicity campaigns, the foreign sales strategies and the ancillary-rights deals.

There may be less glamour, but more dollars are involved in international trade—an increasingly critical economic factor in L.A. U.S. trade with the Pacific Rim countries is now one-third greater than U.S. trade with the Atlantic Basin nations, and 60% of the Pacific Rim trade flows through the U.S. via the Los Angeles Customs District, which includes the area's seaport and the airports. The District's volume more than tripled between 1975 and 1987, reaching nearly \$77.6 billion.

"Business at the Port is outstanding," says Ira Distenfeld, president of the L.A. Board of Harbor Commissioners. He adds, "Container and cargo business is now in its 60th month of consecutive increases in tonnage coming



In 1987, WORLDPORT LA moved over 55 million metric revenue tons of cargo and yielded \$127 million in gross revenues

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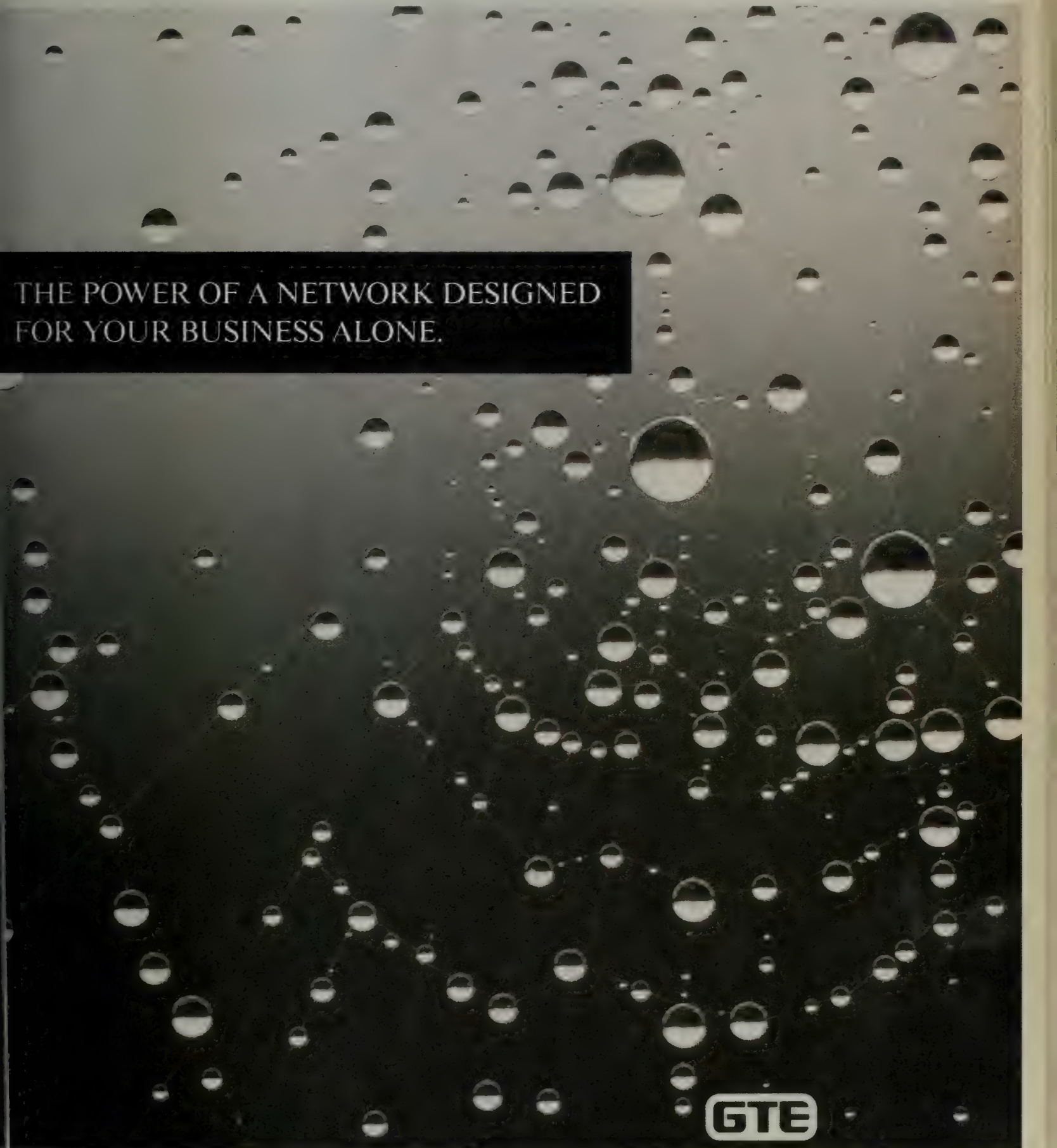
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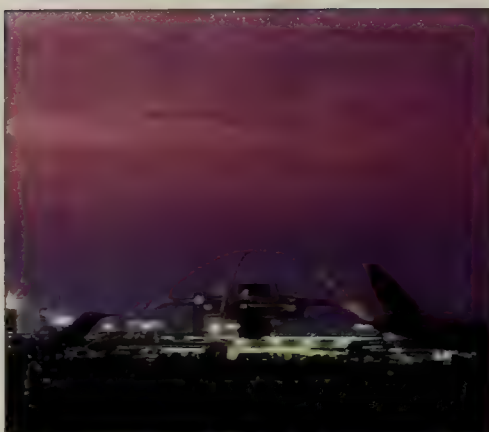
GTE

THE POWER IS ON

LOS ANGELES

through the port." Goods that once may have moved through the Panama Canal now pass through L.A., where strong rail and highway connections are linked to a port that now handles half the West Coast's shipping activity. "Transportation costs and political structures have caused important shifts in transportation activity that have benefited the port," says Ezunial Burts, executive director of the Port of Los Angeles.

Meanwhile, Donald Miller, deputy director of the L.A. Department of Airports, says both air cargo and passenger volume are growing, and Los Angeles International Airport, always called LAX by the cognoscenti, now ranks third in the nation in the number of international passengers it handles. "We're the gateway to the entire Pacific Rim," Miller says.



LAX, largest of the region's five commercial airports, accommodated over 44.9 million passengers and transported over one million tons of cargo last year.

Foreign trade is responsible for one in ten jobs in the L.A. area. Furthermore, many foreign companies who first export to L.A. later establish local manufacturing facilities. Eight of the nine Japanese car companies have established U.S.

headquarters in the L.A. area, as has Hyundai of South Korea. Some 1500 Japanese companies are represented in the L.A. area, and Jerry Asher, senior vice president of Coldwell Banker Commercial Real Estate Services, adds, "There are many companies who are not here yet but who are looking for facilities." More and more foreign companies are producing or assembling goods for the U.S. market in Southern California.

In addition to industrial activity, "The Japanese have been investing heavily in real estate in this area," notes Asher. Other foreign investors are deploying capital in the L.A. area as well as supporting additional business development.

Foreign trade and investment combined with the area's own economic might are creating a major financial center in Southern California.

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nia. In the mid-1970s, L.A. passed San Francisco as the West Coast's financial center. In 1986, it passed Chicago in banking deposits, and now it ranks second only to New York. Leading banks from across the U.S. and around the world have been eager to participate in the L.A. market. "If you walk around downtown, you'll see banks from all over the world," says Charles W. Woodford, chairman and chief executive officer of Trust Services of America, the asset management subsidiary of CalFed Inc. Many envision Los Angeles as a critical global financial center linking Eastern and Western capital markets.

In 1991, for the first time, California will allow banks headquartered outside the state to offer all banking services in the state, and that has set off a major scramble as financial institutions position themselves for the new era. In investment banking, too, all the major

players are well represented. The firms that provide legal, accounting and printing services for the financial world are also expanding. "There isn't any kind of financial expertise you can't find here," Woodford says.

The achievements of the L.A. economy were not preordained by any means. "Los Angeles was once a desert," Miscoll notes, but at the turn of the century, farsighted leaders developed sources of water. Moreover, Bank of America's Miscoll says, "They built a port where there was no natural harbor, and now it is the largest in the U.S. And it will surpass Rotterdam and become number one in the world." What the city has achieved is a reflection of the strong drive of local business and political leaders. "The entrepreneurial drive is very high in evidence here," Miscoll says.

The 1984 Olympics demon-

strated that. Those were the first Olympics that were not sponsored by a government body but rather a private sector group, the Los Angeles Olympic Organizing Committee. They created an Olympiad that was not only exciting and successful but highly profitable. The entrepreneurial spirit is reflected in the area's high proportion of self-employed people—more than in any other major metropolitan area.

That entrepreneurial spirit continues to be renewed by immigrants who seek a better life. Once they came from dustbowls and tenements, now they often come across the Pacific. "L.A. is probably the most multi-ethnic major community in the world," Miscoll says. Immigrants from Mexico, Central America, Asia and other countries provide the city with a strong labor pool as well as a colorful mosaic of life styles and cultures. Furthermore, the region's

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In contrast to many other central cities in major urban areas, the City of Los Angeles continues to be a vibrant regional center of commercial, industrial, financial, government and cultural activity. The Los Angeles region offers major office centers, numerous industrial corridors, and the nation's largest retail market.

While many major industrial corporations and top financial and insurance firms are headquartered in Los Angeles, small- and medium-sized businesses remain key components of our diverse, robust economy. Consequently, the City of Los Angeles has made available the following incentives for job-creating private-sector development in the city:

CITY LOAN DEVELOPMENT PROGRAM: Long-term, low-interest, fixed-asset financing for small- and medium-sized industrial and commercial firms located within the city for job creation and retention through business expansion and development.

L.A. EXPORT: Comprehensive export information, complete loan packaging and technical assistance, direct loans for working capital and accounts receivable to businesses in the Los Angeles region as well as access to the Export-Import Bank of the United

States, Foreign Credit Insurance Association, and other government agencies.

■ Development assistance for larger projects through Urban Development Action Grants and Economic Development Administration assistance. Grants to the city can be used for low-interest loans to developers and/or for city investment participation in the project. Industrial Revenue Bond financing through the Industrial Development Authority of the City of Los Angeles can be used for industrial and energy conservation projects.

■ Other financing is available within designated redevelopment areas of the city, including land write-down and funding from tax increment revenues and tax allocation bonds.

For more information write to the Mayor's Office, City Economic Development Office, City Hall—Room 2008, Los Angeles, Calif. 90012, or call (213) 485-6154.



Mayor Tom Bradley

LOS ANGELES



Los Angeles is served by one of the most comprehensive networks of modern freeways in the world.

cultural diversity makes it an attractive place for foreign companies to do business.

The growth in the size, sophistication and wealth of L.A.'s population is reflected in the growing strength of the city's cultural institutions. The Museum of Contemporary Art, the Los Angeles County Art Museum, the Getty Museum, the Huntington Library, Art Gallery and Botanical Gardens, and the Norton Simon Museum have some of the world's greatest selections of visual arts. The Music Center, in downtown L.A., produces first-run stage plays and concerts. The theater scene is increasingly lively. And top artists perform pop, rock, jazz, rhythm and blues, country and classical around the town.

Of course, the sun does not always shine on L.A. Donald Miller says, "Certainly we have problems with regard to transportation, waste disposal, and air quality," but he adds they are the focus of attention by the public and public officials. There are concerns about affordable housing and excessive development.

The traffic problems, for example, reflect the dramatic growth in the city. The city has four of the busiest freeways in the country, and the freeways are as much a symbol of the city's growth as the freeways in New York or the freeways in Venice. The conven-

tional wisdom is that L.A. is highly decentralized and dispersed along its freeways because it was built to accommodate cars. In fact, it's just the opposite. The metropolitan area was originally composed of scores of towns separated from one another by orange groves and agricultural fields. They were linked by the 1,100-mile Red Car trolley network, one of the nation's largest public transportation systems. But the Red Car gave way to the freeway system, which further linked together this highly decentralized metropolitan area of subcenters.

While an automobile is important, L.A. has the largest bus system in the country, serving 1.5 million riders a day. Moreover, a light rail system is being constructed from Long Beach to downtown L.A., and after a dozen years of debate, construction began last year on Metro Rail's first 4.4-mile subway segment. Planners hope it will be the initial link in a \$4.5 billion, 150-mile rail network. Mass transit raises chicken and egg questions in L.A.: Mass transit depends on concentration, which doesn't yet exist, but building mass transit may encourage it.

Meanwhile, innovative use of dedicated freeway lanes for carpools and buses, computerized traffic signals and other measures are being used to manage traffic.

Whatever is done is likely to set an example for the many other Sunbelt cities that have grown in the era of the automobile.

High housing costs are another problem of growth and prosperity. The response for some has been to move further from the city's core and as a result there is development throughout the seven county region, with cowboys now neighboring commuters in some places like Riverside County.

There are stirrings of opposition to unbridled growth. But Tom Smith, of Coldwell Banker Commercial Real Estate Services, says, "I will have a more profound effect on outlying areas than on the city itself." Even the critics of growth mainly want to channel and focus it rather than altogether curb it. City officials have responded by actively directing development in communities that will benefit.

"In my estimation L.A. is still in the very, very early stages of some very exciting growth," says Magnetek's Perna, and those companies which serve the local market are preparing for it. At GTE California for example, Leweck says, "In the last eight years our company has spent enormous amounts of money modernizing our network." As a result of expenditures averaging \$750 million a year recently, 92% of GTE's switching centers will be electronic by the end of this year.

Retailing continues to expand as well, and construction companies are doing nicely.

Like all cities positioned at important crossroads, L.A. continues to be a magnet for people and business. What is unique about Los Angeles is that it offers so much of what so many people are looking for. L.A. has always attracted people seeking a better way of life. The climate is agreeable both to people and to business. The skilled labor force and excellent physical plants combine together for an exceptional business environment. Simply stated, "L.A. is the place for business." ▼

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Great Family Fortunes



Greg Couch

Some major U.S. family fortunes have already been so divided that no individual among them qualifies for The Forbes Four Hundred. This listing is extensive but not intended to be as complete as our listing of the richest individuals in America. Think of most as the significant echoes of persons who would have been members of The Forbes Four Hundred if it had been compiled in earlier decades, or as families still building.

Family Fortunes

Andersen

Bayport, Minn. Heirs of Danish immigrant Hans Jacob Andersen, who debarked Portland, Me. 1870; first English words became philosophy: "All together, boys." With sons Fred and Herbert, founded Andersen Lumber Co. 1903 in Hudson, Wis.; revolutionized building industry 1904: standardized wooden window frames with interchangeable parts. Moved to Bayport factory 1913; signed first profit-sharing checks Christmas Eve 1914; died suddenly. Son Fred took reins, emphasized advertising: "Only the rich can afford poor windows." Private Andersen Corp. nation's largest window, patio, door maker, \$960 million sales ("the Cadillac of the window industry"); profit sharing plan 1987 split \$106 million among employees (average check: \$28,600). No Andersens active in daily management, but 4 serve on board; family's 70% worth at least \$500 million.

Annenberg

NYC. Three of 7 daughters of Moses Annenberg (d. 1942), founder of Triangle Publications. Estate divided equally among 7 daughters and son Walter (*which see*). Triangle's golden goose, *TV Guide*, provided very decent income; but \$3.2 billion sale proved bonanza for Esther Annenberg (Mrs. Leo Simon), 87; Janet Annenberg (Mrs. James Hooker), 84; and Lita Annenberg (Mrs. Joseph Hazen), 79. Sisters Enid (Mrs. Ira Haupt) and Evelyn (Mrs. Melville Hall) cashed in most of their Triangle stock years ago (children of 2 deceased sisters also have small stake). After sale to Rupert Murdoch, Esther, Janet, Lita share proceeds estimated \$675 million.

Bacardi

Puerto Rico, Miami et al. Descendants of Leon Facundo Bacardi (b. 1816), wine merchant and Spanish immigrant to Cuba, distilled a "civilized" rum; founded Bacardi Co. 1862. Now world's most popular alcohol, over 20 million cases shipped, estimated 80% of rum

market. Family prominent in historic events: liberation of Cuba, invention of daiquiri. Generations of Bacardis work in network of mostly private companies: Bacardi Co. of Puerto Rico sells to Bacardi Imports of Miami; both pay royalties to Bacardi & Co., Ltd. in Bahamas. Attempt to take one public co. private through 1-for-1,000 reverse stock split stalled 1987. Some 500 family members have interests in business worth over \$1 billion.

Bancroft

Inheritance. Great-grandchildren of Clarence Barron (d. 1928) of Dow Jones empire (*Wall Street Journal*, Dow Jones ticker, Ottaway Newspapers, *Barron's*). Clarence's adopted daughter Jane married Harvard lawyer Hugh Bancroft (d. 1933). Fortune split among 3 children: Jane Bancroft Cook (*which see*), Jessie Cox, d. 1982 (*see William Cox Jr., Jane Cox MacElree*), Hugh Bancroft Jr., d. 1953. Hugh's 4 children inherited his share. Daughter Bettina Klink currently a Dow Jones director. Brothers Hugh and Christopher and sister Kathryn keep very low profile. Their one-third of trust holds some \$570 million in Dow Jones stock.



Average estimated net worth of the family groups on these pages is about \$750 million.

Barbey

Calif. et al. Heirs of John Barbey, who founded Reading Glove & Mitten Manufacturing Co. with 5 partners 1899. Sold inherited brewery business to buy out partners 1911, changed name to Vanity Fair Mills. First product: silk gloves. His son John (d. 1956), "fanatic for quality," early fashion designer. Became high-fashion merchandiser; manufactured parachutes WWII, introduced nylon fabric 1946, first to show off lingerie on live models in fashion shows 1949. Became VF Corp. 1970; now world's largest publicly owned apparel co. (Lee, Wrangler, Jantzen, etc.). None of 16 family members with co.; all are retired. Barbeys' 17% VF Corp. stock worth \$340 million.

Bean

Freeport, Me. Descendants of Leon Leonwood Bean (b. 1872), outdoorsman, founder L.L. Bean, Inc. Owned Freeport dry goods store; inspired 1911 to put rubber bottoms on leather shoes. Ninety of first 100 Maine Hunting Shoes returned defective; introduced L.L. Bean guarantee, still in effect today. After Maine issued first hunting licenses 1919, sent catalogs in first-ever direct mail marketing campaign. Down-home approach: "I tried on the trail practically every article I handle." At death in 1967, at 94, sales \$4.8 million. President and grandson Leon Gorman, now 53, increased advertising, further developed women's line: 1987 sales, \$493 million. Granddaughter Linda Bean-Jones, 47, active Republican fundraiser. Estimated that 15 descendants control company worth over \$400 million.

Belk

Charlotte, N.C. Descendants of brothers William H. and John Belk, who opened N.C. general store 1888. Did not allow credit, bought out competitors who did at discount during Depression; from 29 stores in 1920 extended empire to 220 stores in 1945. "I don't reckon we got a system, we just sell goods." About 25 descendants

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Family Fortunes

share ownership with local owner-managers of 340 department stores throughout Southeast. Family known for intrigue, feuds, lawsuits: William Henry Jr. ousted as chairman 1950s; tried, failed to thwart brother John's Charlotte mayoral career (1969-77). Family's share of business, estimated at average 55%, worth around \$300 million.

Belz

Memphis. Three generations in real estate. Philip, 84, emigrated from Austria 1910 (with mother) at age 6. Partner with brother-in-law dry-goods business. Banker friend, noting extra land, suggested Belz let bank show him how to finance, develop. From that acre to real estate empire: over 750 tracts Memphis/Shelby County alone. Expansion into Nashville 1970s. Family rarely sells, few joint ventures, little debt. Early developers industrial parks. Ultradiversified: motels (Holiday Inns), shopping centers, office buildings, apts., farmland, off-price outlet malls across U.S. "Uncle Philip" to employees; others know him as "damn hard negotiator—but always keeps his word." Frustrated opera singer: Friend Robert Merrill told him to forget it. Two sons killed in plane crash 1963; third son, Jack, 60, now runs firm with third generation. Jack's son, Marty, heir apparent. Fortune believed to exceed \$400 million.

Bingham

Louisville. Descendants of Robert Worth Bingham, lawyer, politician, ambassador to Britain. Married Mary Lily Kenan Flagler, one of nation's richest women, 1916; controversy surrounded her death one year later. Bought majority two Louisville newspapers—*Courier-Journal*, *Louisville Times*—from \$5 million inheritance 1918; championed unpopular liberal causes. Died 1937; son Barry bought out siblings, added broadcasting. Advocated U.S. WWII involvement; served in Naval Reserve. Paper won 7 Pulitzers during his tenure. Son Barry Jr. editor, publisher 1971. Barry Sr. stepped in after highly publicized power struggle among siblings 1986; sold papers for \$300 million,

broadcast for \$100 million, printing co. for \$20 million (died Aug. 1988). At least 13 family members share fortune estimated \$400 million.

Brown

Louisville. Descendants of George Garvin Brown. Distilled Old Forester whiskey with cousin 1870. Company became Brown-Forman 1890. Produces Jack Daniel's, Bolla and Cella Italian wines, Korbel brandy and champagne, Southern Comfort from 1979; California Cooler 1985. Lenox Inc. subsidiary acquired 1983: home furnishings, luggage (initiating poison pill defense). W.L. Lyons Brown CEO since 1983, Owsley Brown II president 1987. "Planned nepotism" company policy with one requirement: family member must hold at least 2 degrees before joining company. Also, hire relatives of employees. "We husband our resources carefully." Family stake in company valued at \$615 million.

Bullitt

Broadcasting. Seattle. Pioneer C.D. Stimson amassed Seattle-area timber, real estate interests early 1900s (d. 1929). Daughter Dorothy, now 96, stepped in to manage on death of her husband, A. Scott Bullitt, prominent Northwest politician, in 1932. Out of boredom bought radio station 1947, then area's first tv station 1948: "The station came before the sets." King Broadcasting now 4 tv stations, 6 radio, 125,000 cable subscribers. Dorothy, who rafted Colorado rapids at 85, still on board; daughters Priscilla (Patsy) Collins, 67, Harriet S. Bullitt, 63, run company. Son Stimson, 68, manages Harbor Properties real estate; no share in family's 77% of King. Patsy: "Someone decides they want to buy us every week. Those letters go right into the wastebasket." Family believed worth over \$480 million.

Cabot

Boston area. Descendants of ship-builder John Cabot came to Mass. from Isle of Jersey 1700. Family in privateering during American Rev-

olution, then amassed wealth through overseas trade, marriage; achieved distinction (sea captains, industrialists, doctors, lawyers, former Senator and UN Ambassador Henry Cabot Lodge). Cabot Corp. founded by Godfrey Cabot (nicknamed "Uncle God" for imperious demeanor) 1882; now world's leading producer carbon black, also operations in energy, other specialty chemicals and materials (1987 revenues, \$1.4 billion). Sold majority of metals business in 1987 restructuring. Three first cousins: Louis Wellington Cabot, 67, director (retired as chairman 1986); John M. Bradley, 65, director; John G.L. Cabot, 53, executive vp. Family shares 32% Cabot Corp. worth at least \$390 million.

Campbell

Hawaii et al. Family patriarch James Campbell left Ireland as stowaway aboard schooner bound for Canada 1839 at age 13; went to NYC to work for brother. Shipwrecked working on whaler; arrived Hawaii 1850; started sugar plantation, pioneered artesian wells, hoarded land called worthless; soon dubbed "Kimo Ona-Millionaire" (James the Millionaire) by islanders; died 1900, left fortune to wife, 4 daughters. His estate now owns 80,000 acres in Hawaii, Oahu, Maui; also shopping centers, hotels, office and industrial buildings on mainland shared by 18 heirs. Campbell's last surviving daughter died 1987; trust dissolves 2007, when over 35 descendants expected to share estate now worth over \$650 million.

Cargill & MacMillan

Origin: Minneapolis. Founder William W. Cargill, son of Scottish sea captain. Born Long Island, moved west, set up Cargill, Inc. predecessor 1865, quickly overtook grain-trade competition. Neighbor John Hugh MacMillan married Cargill's daughter 1895, became company president when William died 1909. MacMillans more active in what is now largest private company in U.S. (1987 revenues over \$32 billion): the world's largest commercial grain trader; among top boxed-

beef processors; has 312 businesses in 56 countries. Reputed best crop-market intelligence in world. Cargill and MacMillan families own 85% of company: 3 main branches hold 75% worth at least \$2 billion, while other branches have 10% (see individual Cargills, MacMillans, Keinath, Pictet).

Chandler

Los Angeles et al. Times Mirror Co. Descendants of Harry Chandler (d. 1944), who worked at *Los Angeles Times* 1880s, married owner Harrison Gray Otis' daughter, rose from clerk to chairman. Built real estate/media empire. Son Norman used limited supplies to print news in *LA Times* during WWII, at expense of advertising; beat out rival *Examiner's* many ads, less news for max. profits. Grandson Otis recently departed as editor-in-chief; co. in hands of nonfamily managers. Currently 7 newspapers including *Newsday* (N.Y.), *Baltimore Sun*; sold *Dallas Times Herald* 1986; *Denver Post* 1987. Also magazines, broadcast, cable tv, etc. Family's Times Mirror stock worth \$1.5 billion.

Close

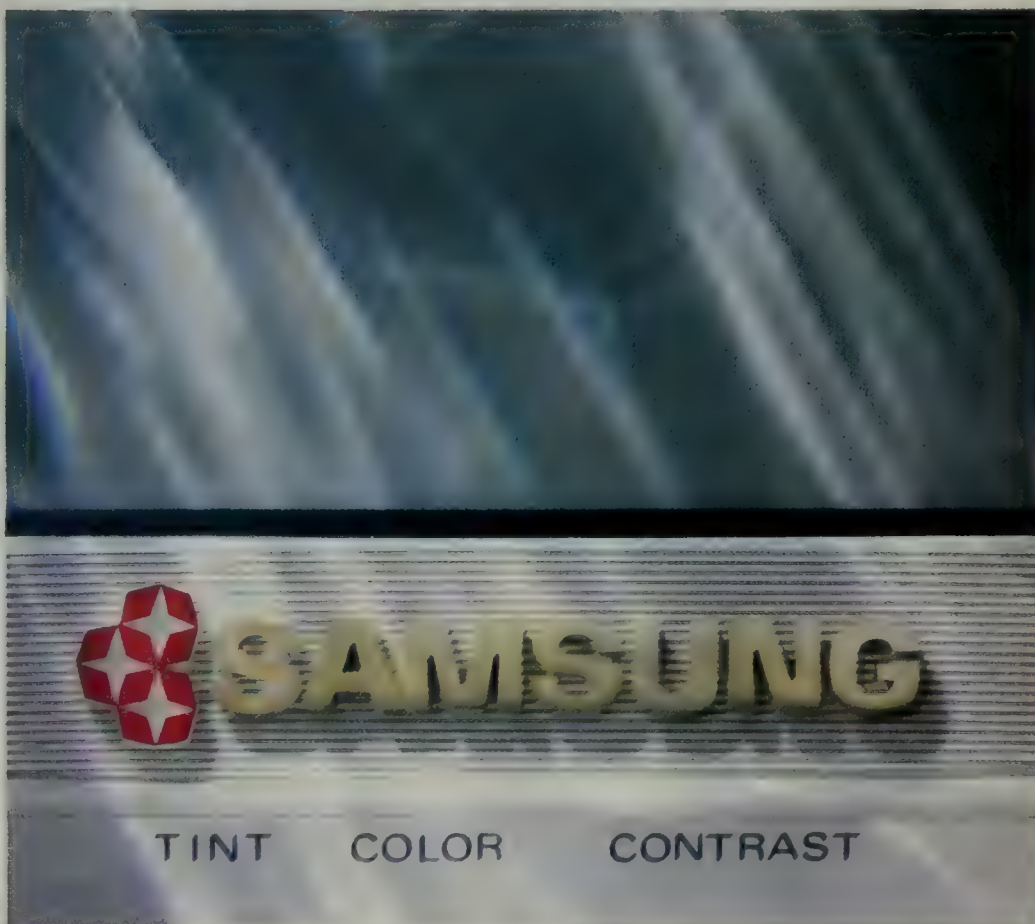
Fort Mill, S.C. Col. Leroy Springs, founded 250-loom Lancaster Cotton Mill 1895, took over Fort Mill Mfg. Co.; second wife Lena first woman nominated for U.S. Vice President, 1924. Son Elliott White Springs, WWI ace, inherited 5 cotton mills from father 1931. Master-minded famed ad campaign—"A buck well spent on a Springmaid sheet"—that wowed them in 1950s. Died 1959; son-in-law H.W. Close took over, d. 1983; Springs Industries one of nation's largest manufacturers sheets, pillowcases, etc. (1987 sales, \$1.7 billion). Mrs. Crandall Close Bowles, 41, sole family director; also runs family businesses, Springs Cos. (management co.), and real estate, insurance, railroad. Mother, Anne Springs Close (daughter of Elliot), Crandall and 7 siblings share 58% Springs Industries stock. Fortune estimated at least \$380 million.

Cohen

NYC area. Brothers Sherman, Edward and Mortimer (an erstwhile optometrist) sold Va. clothing busi-



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Family Fortunes

ness, left for Yonkers, N.Y. Oldsmobile distributorship 1949; built first apt. project 1950s, moved full time into construction, real estate. Switched to NYC offices 1970, now control over 2 million sq. ft. office space; traded 6 properties for 3 prime Manhattan office buildings during office glut 1977 ("the most ingenious deal of the year"). Brothers litigious, difficult: "They function as if the real estate business were the Wild West." Building NYC office tower around holdout tenant. Sherm: "I don't concern myself with what other people say. My banks love me." Sherman, 65, deals; Edward, 70, builds. Mort died 1976, widow Estelle shares in some properties. Family worth at least \$450 million. "If everyone in the real estate industry made a list of their least favorite people, the Cohens would be right at the top."

Coker

Sonoco Products. Hartsville, S.C. Descendants of Civil War vet James L. (The Major) Coker, who built bank, cotton mills, seed co., railroad. Family pre-dates Revolutionary War. In 1899 founded Southern Novelty Co. with \$3,000 in capital to make paper cones to hold yarn in textile mills. Sonoco Products now \$1.3 billion (1987 sales) international packaging co. with over 200 plants in 19 countries (largest plastic shopping bag manufacturer). Chief executive now Charles Coker, 55. Family, which numbers over 500, has 35% of stock worth \$455 million.

Collier

Naples, Fla. Heirs (excluding Miles Collier, *which see*) of Barron Gift Collier, who quit school at 16 to sell street lanterns in Memphis. Early ad man, sold trolley car ads; moved his Consolidated Street Railway Advertising Co. to NYC early 1900s. Came to Fla. 1911, bought land; owned 1.3 million acres (county, high school, even a creek namesakes) at death 1939. Heirs' risk-averse strategy spurred split with grandson Miles; empire divided with coin flip 1980. Barron Collier Cos. small-time developer; owns 77,000 acres Fla. agriland, as

well as 5,000 prime acres Naples, 4,500 acres citrus, oil rights, etc. Sold *Naples Daily News* 1986 for \$160 million. Miles, other Colliers swapping 114,000 acres swampland and \$38 million for 80 acres federal property in downtown Phoenix. Lamar Gable, Barron Collier Jr.'s stepson, heads over 15 Colliers who share their portion, worth at least \$550 million. "We plan to be here a while."

Coors

Golden, Colo. Adolph Coors Co. founded by German immigrant Adolph Coors 1873, stowaway draft dodger. Brewery survived Prohibition by making malted milk, ceramics, near beer. Went public 1975, now fourth-largest producer in U.S. Single Coors brewery (world's largest), at Golden, Colo., vertically integrated, ensures beer uniformity. Shipped 15.6 million bbl. 1987, 8% of industry total. Grandsons William, Joseph, great-grandsons Peter, Jeff now run company. Family's antiunionism, ultra-conservatism created controversy; accused of prejudice against women, minorities, homosexuals 1970s; anti-Coors demonstrations on entering N.Y. market 1987. Company countered with minority initiatives; settled labor-backed consumer boycott 1987 with agreement to unionize. Family owns all voting stock, 60% nonvoting, worth \$450 million.

Cowles (Gardner)

Minneapolis, Des Moines et al. Descendants of Gardner Cowles Sr., who put \$110,000 into feeble *Des Moines Register* 1903, added evening *Tribune*, built respected monopoly (d. 1946). Son John Sr. (d. 1983) pulled same trick with *Minneapolis Star* 1935; son Gardner (Mike) Jr. (d. 1985) founded *Look* magazine. Sold Florida papers to New York Times Co. for 23% of its stock 1971. Restless heirs forced more sales: Cowles Broadcasting to Oveta Culp Hobby (*which see*) 1984, *Register* to Gannett for \$200 million 1985. Grandson David Kruidenier, 67, chairs thinly traded Cowles Media, now 4 dailies, 11 weeklies; fought sales: "but we got a good price." Over 70 heirs

with 80% of Cowles, other investments, believed worth more than \$800 million.

Cowles (William)

Spokane. Descendants of William Hutchinson Cowles, *Chicago Tribune* heir (also distant relative of Gardner Cowles, *see above*), "police reporter" with Yale law degree; moved west 1891, bought into Spokane *Spokesman-Review*. Gained control 1894, bought rival *Chronicle* 1897. Invested in timberland, started Inland Empire Paper Co. William Jr. added radio 1946, tv 1952. Now grandsons: James, 54, manages real estate, including downtown office space; William III, 56, publishes papers, races sailboat. Brothers dominate local media (tv, radio, monopoly newspaper) but don't talk to reporters. Banker friend: "They don't want the community to feel they're running things." Eight heirs share Cowles Publishing, large stake in Tribune Co., other assets, worth over \$400 million.

Cullen

Houston. Descendants of Hugh Roy Cullen, legendary wildcatter who quit school in fifth grade to work in San Antonio candy factory for \$3/week; in his early 20s successful Oklahoma cotton buyer; relocated Houston 1911, bought real estate on Ship Channel. Oil business in his 30s; first strike 1921 at age 40 by drilling deeper on abandoned fields. Founded Quintana Petroleum 1932. "If you can't make a living working 8 hours a day, work 12, 18 or 24 hours. That's what I did." Only son Roy killed in 1936 rig accident; Hugh Roy gave away \$200 million in will. Two daughters, their husbands, grandchildren still have immense gas & oil reserves. Quintana run by executive committee of publicity-shy family members. Grandson Baron Ricky di Portonova waged 10-year litigation for bigger share of inheritance; lost 1984. Makes do with \$10 million a year from mother's trust funds in Rome, Acapulco, Houston. More than 20 family members now share interest in fortune worth at least \$1.3 billion.

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Family Fortunes

Davis

Jacksonville, Fla. and various. Descendants of William Milton Davis, founder Winn-Dixie grocery stores. Opened first store 1925 in Miami suburb. Four sons built into largest grocery chain in Sunbelt. Now 1,246 stores; fifth largest in nation. Family averse to big government, called "J.P. Stevens of the food industry" by unions. Family: "We just believe in free enterprise." Generous employee profit sharing plan; political action committee. Grandson Robert handed chairmanship to cousin A. Dano 1988 to guide other family interests. "I'm just stepping down to give myself a little more elbow room." With 50,000-acre game preserve, Jacksonville ranch, 38% W-D stock, American Heritage Life Insurance holdings, family fortune worth over \$515 million.

Dayton

Minneapolis. Dayton-Hudson Corp. Descendants of George Draper Dayton, founded Dayton's department store 1902. Son, horse-breeder George Nelson Dayton, took over 1938; raised 5 sons on isolated 800-acre farm to encourage familial ties, cooperation. By 1950 sons all in co. Added store 1954, first enclosed mall 1956. Then new outlets: Target, Mervyn's, Lechmere, B. Dalton Booksellers. Went public 1967. Tradition: 5% taxable income to community philanthropies. Last son retired 1983. "We have never played it safe, and we always looked very long range." 1987 revenues, \$10.7 billion. Granddaughter, allegedly duped into vast donations by Bible Speaks Church, awarded \$6.6 million settlement 1987. Family fortune about \$780 million.

de Menil

Houston et al. Descendants of physicist Conrad Schlumberger, who developed first "well logging" device 1920s. Bonanza for oil exploration—fine-tuned location, depth of underground oil. U.S.S.R. first country to try Schlumberger, Ltd. (Conrad, a socialist, pleased). Com-

pany predominant in field over half-century. Daughter Dominique resettled with husband John de Menil in Houston WWII. Has amassed over 10,000 works of art ("What I admire, I must possess"), opened \$27 million museum to house part of collection 1987. Five children have substantial art collections of their own. Dominique, family, have fortune estimated at least \$400 million.

de Young

San Francisco et al. Descendants of Michel H. de Young, who founded *San Francisco Chronicle* with brother Charles 1865. Paper thrived on racy scandals, mudslinging. Charles shot dead in office by irate reader 1880; Michel survived assassination attempt. Juries acquitted both defendants. *Chronicle* fought Hearst paper for year before signing 1965 profit sharing pact. Paid estimated \$250 million for Worcester (Mass.) *Telegram & Gazette* 1986. *Chronicle* Publishing now 6 dailies, 5 tv stations, cable (248,000 subscribers). Great-grandson Richard Thieriot, 46, publisher since 1977, but cousin Nan Tucker McEvoy (*which see*) has largest share. Nineteen heirs (excluding McEvoy) control two-thirds of *Chronicle Publishing*, worth \$660 million.

Dikeou

Real estate. Denver and Orlando, Fla. Pronounced "D-Q." Father Panayes ("Pete," d. 1977) emigrated from Greece 1921, founded Colorado Popcorn Co. wholesaler with brother James. Entered more profitable real estate business with \$2,200 Denver land purchase 1942. Dikeou Realty now owns 15 prime acres downtown Denver, at least 15 Fla. shopping centers, mostly Orlando area, occupied by small chain department stores (8 others breaking ground). Denver strategy: Buy small parcels well-situated downtown, be last holdouts in large-tract assemblage deals. Run by 3 sons: George, 57, John, 52, handle Denver operation; Deno, 50, oversees Florida office. Owns minor league Denver (baseball) Zephyrs; wants big league franchise. Net worth estimated \$375 million.

DiLorenzo

NYC. Descendants of Alex DiLorenzo Jr., Brooklyn pharmacist-turned-realtor and neighbor of Sol Goldman (*which see*) 1930s. Formed partnership to buy Brooklyn, N.Y. apt. house 1951. Goldman-DiLorenzo Properties grew into NYC's largest landlord; then lost 40% holdings in 1973-74 NYC real estate crash, incl. Chrysler Building. Alex died 1975, parcels split by coin flip. Alex III: "There were a lot of properties and a lot of problems." DiLorenzo Properties now nearly 400 properties, most small, commercial "taxpayers"; many fee positions, net leases, etc. Owns landmark Washington Mews area in NYC's Greenwich Village; asking \$100 million for land under St. Moritz hotel NYC: "That property, as they say on Wall Street, is in play." Alex III runs the show, brother Marc an up-and-comer. Sister, mother also benefit. Worth at least \$500 million.

Disney

Los Angeles area. Heirs of Walter Elias Disney (d. 1966). Genius cartoonist attended art school in Chicago. Arrived in Hollywood with \$40 in 1923. With brother Roy made animated cartoons for N.Y. co. starring Oswald the Lucky Rabbit. Conceived Mickey Mouse 1928, wife Lillian chose name over Walt's original idea, Mortimer Mouse. Walt Disney Co., the house that Mickey built, now includes theme parks, movies, the Disney Channel, etc. Also Epcot center; city of tomorrow, Walt's "last great vision." Receives royalties from Tokyo Disneyland; building Euro Disneyland outside Paris. Walt's widow Lillian, daughters Sharon, Diane control Disney Co. stock worth \$440 million.

Donnelley

Origin: Chicago. Dispersed descendants of Richard R. Donnelley, apprentice saddlemaker Canada, started print shop Chicago 1864. Destroyed in 1871 Great Fire; rebuilt into R.R. Donnelley & Sons on good name, credit. Hit big time

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—George Eliot*



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Family Fortunes

1920s when son James won *Time* magazine contract. Company non-union, pays union wages; thrice turned down *Playboy* printing contract. Diversified into mailing lists, direct mail, catalogs. Nation's largest commercial printer, 1987 revenues \$2.5 billion. Reuben H. opened publishing firm (magazines, Yellow Pages), sold to Dun & Bradstreet 1961 for \$80 million in stock. James Donnelley now only family board member. Family credo: "The family exists to serve the business—the business does not exist to serve the family." Some 75 descendants share over \$900 million.

Duda

Oviedo, Fla. Czech immigrant Andrew Duda (d. 1958) left Cleveland, arrived Fla. 1911 to start religious farming community; went broke and back to Cleveland 1916. Returned 1926; planted 10 muckland acres of celery, family kept plowing profits back into company: "It was a good investment." Three sons: John, 83; Andrew Jr. (d. 1986); Ferdinand, 78 (none finished high school). Company passed to third generation 1977. A. Duda & Sons today \$140 million in sales, 115,000 acres, one of nation's largest vegetable growers, still features celery. At least 60 family members share land, vegetable empire worth well over \$600 million.

Heirs of Pierre Samuel du Pont II

Wilmington, Del. Descendants of Pierre Samuel du Pont de Nemours (1739-1817), French Physiocrat who fled revolutionary Terror for America 1800. Son Eleuthère Irénée, chemist's apprentice, founded gunpowder factory on Brandywine Creek 1802. Company and family prospered in 19th century, dominated Powder Trust of late 1800s. After family schism over control, Pierre S. du Pont II emerged as leading figure 1915. World War I munitions contracts lucrative, led to despised sobriquet "Merchants of Death." Rescued nascent General Motors 1920s, got about one-third interest. Also Hercules Powder Co., U.S. Rubber (lat-

er Uniroyal), etc. Childless, Pierre divided bulk of fortune among siblings, nephew before death 1958. His family branch built up Wilmington Trust. Dissident branches established Delaware Trust Co. (see *William du Pont family*). Numerous descendants of Pierre II siblings still control over 15% of Du Pont, the wealthiest du Ponts by far. This branch (including listed individuals) estimated to be worth over \$6.8 billion.

du Pont (William)

Wilmington, Del.; Boston; Fla.; Wyo. Children of William Jr. (d. 1965). William Sr. (d. 1928) ostracized from family for divorce early 1900s. On wrong end of battle for Du Pont 1915; founded Delaware Trust to escape Pierre's Wilmington Trust (see *other du Ponts, family*). Retained huge holdings Du Pont stock, now held by grandchildren: Henry Eleuthère Irénée, 61, born William Henry, changed name 1973. Sued, with brother John, to block bequest of aunt Marion du Pont Scott (d. 1983) leaving "Montpelier," estate of James Madison, to national historic trust. Henry wanted to live there; lost. His adopted children sued to inherit despite will leaving everything to lineal descendants of grandfather; they lost. Impenetrable trusts safeguarded Henry's inheritance from business losses. Jean Ellen (Mrs. William Mason Sheehan) and brother John sold 25% controlling interest in Delaware Trust 1981. Four siblings share fortune estimated at least \$800 million.

Ford

Grosse Pointe, Mich.; NYC et al. Descendants of Henry Ford, legendary developer mass-produced automobile, founder Ford Motor Co. Built to preeminence, lost lead to General Motors failing to heed market demands. On death 1947, Ford Foundation became one of nation's largest philanthropic institutions. Only son Edsel died 1943. Grandchildren: Josephine, William (see *both*), Henry II, Benson. Company in disarray, Henry finally yielded 1946 to eldest, Henry II, then 26, who supervised Ford Motor over-

haul from \$8 million loss 1946 to \$260 million profit 1950. Ran company to 1980 amid controversy over private, public careers. On handling adverse publicity: "Never complain, never explain." Died 1987; left 2 daughters (4 husbands between them), son Edsel II, 39, Ford director 1988; widow fighting trustee appointment. Benson (d. 1978), most social Ford, left 2 children. Rebellious son Benson Jr., 38, angered family by suing for control of father's estate, board seat. "We weren't exactly sure what he was doing." Now reconciled, works at Ford Motor. Five cousins share Ford stock and other investments worth \$600 million.

Getty

Calif., London, scattered. Heirs of billionaire oilman Jean Paul Getty, who parlayed father George F. Getty's oil co. (founded 1903) into worldwide oil giant. J. Paul began litigious family tradition 1925 with first of five divorces; "playboy" largely disinherited by father for failed marriages. Stock in Getty Oil left to mother Sarah, who established Sarah C. Getty Trust 1934 for grandchildren, gave J. Paul control. Late in life ran business from Europe; kept "harem" at English mansion; reputed hypochondriac, miser; d. 1976. Known offspring: Gordon (*which see*); Jean Paul II; Ronald; oldest, George (d. 1957), probable suicide; youngest, Timothy, died after tumor operation age 12. Ronald cut out of trust because of mother's large divorce settlement. Jean Paul II's son had ear severed in 1973 kidnapping; "Golden Hippie" permanently paralyzed since 1981 drug-induced stroke. Gordon eventually sole trustee (since removed); his ill-fated sale of Getty Oil shares to Texaco 1984 sparked family lawsuit orgy (11 total). Trust now controlled by Calif. judge, in T bills. Upon settlement, if and when, 4 family branches split \$3 billion.

Goldman

Honolulu; Aspen, Colo.; Oklahoma City. Two sons of Sylvan Goldman (d. 1984), who built Humpty Dumpty grocery chain 1930s; in-

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Family Fortunes

vented, introduced the shopping cart. "This was the greatest innovation in self-service." Merged Humpty Dumpty chain into ACF-Wrigley (now Allied Supermarkets) 1955; with profits moved into real estate 1959; developed shopping centers, planned communities, hotels in Colo.; also the Southwest, Hawaii, Puerto Rico. Goldman Cos. now large presence Houston, Oklahoma City, also Ariz.; most properties owned under different trust names, corp. names, etc. Reputedly cash heavy; sold redone Kaiser Estate 1988 for \$43.5 million. Alfred: 50. Single. Wharton grad, runs the show. Brother Monte: 53. Divorced, 2 daughters. Inactive, lives Aspen. Brothers worth at least \$400 million. Alfred says higher: "If Malcolm will release his statement, I'll release mine. We both make a good living."

Goldman (Sol)

NYC. Heirs of NYC real estate billionaire Sol Goldman (d. 1987). Sol grew up Brooklyn; worked in family grocery store. Left 1930s, ignored Mom's advice ("Never leave the store, Sol. It's a gold mine"); scoured for Depression-era foreclosed properties. With Alex DiLorenzo Jr. built Goldman-DiLorenzo into NYC's largest, most leveraged landlord; Sol wheeled and dealt, Alex managed. Crashed early 1970s with NYC real estate (lost 40% of properties); split rest by flipping quarters with DiLorenzo heirs (*which see*) 1975. Recovered; at death owned over 5 million sq. ft. offices, 10,000 apts. Colleague: "He had the greatest nose for real estate I ever saw." Sol's will: one-third to wife Lillian (*which see*); two-thirds to 4 children (including 25% in 21-year charitable trust). Kids' share, after 60% estate tax, etc., should be worth over \$300 million.

Gund

Cleveland origin. Six children of George Gund Jr. (d. 1966). Harvard Business School grad, liquidated family brewing company during prohibition, bought Kaffee Hag (decaffeinated coffee firm) 1919; sold to Kellogg 1927—now Sanka at General Foods. Expanded real es-

tate holdings; bought bargain-rate Cleveland Trust stock, became president 1941. Son Gordon: "He lived relatively spartan and he didn't spare the rod. We didn't know the extent of our wealth until his death." George III, Gordon own NBA Cleveland Cavaliers, NHL Minnesota North Stars, stadiums. Gordon, blind from retinitis pigmentosa, venture capitalist, Princeton, N.J. Agnes Saalifield, NYC, modern art collector. Brother Graham, famous Boston architect. Together 6 worth \$750 million.

Haas

San Francisco. Bavarian immigrant Levi Strauss exploited Calif. gold rush selling pants made of tent canvas. Patented denim version 1873. Walter Haas Sr. (d. 1979) married Strauss grandniece, ran Levi Strauss & Co. 1928-55; created American institution. Walter Jr. took company public 1971. Son Robert, 46, now CEO after Peace Corps, Harvard M.B.A.; took company private again 1985 in \$1.7 billion buyout as profits sagged. "We were overaggressive in our planning." Through layoffs, streamlining, restored profitability. Bought in 50% of debt. World's largest producer of jeans, revenues still growing: \$2.9 billion. If cashed out now might net \$600 million.

Haft

Father and children. Dart Group (retailing, real estate, greenmail). Washington, D.C. Herbert: 68. Married (beautician wife a Dart Group vp), 3 children. Son of pharmacist, began with neighborhood drugstore 1954. Early discounting pioneer: Developed own shopping centers (family-owned Combined Properties) when frozen out of existing malls. Sold 77-store chain 1984 to management group for \$160 million. Profit for his nominally public Dart Group: \$75 million. Dart owns 52.4% Crown Books, 66% Trak Auto. Vehicle for takeover attempts (Federated, May Dept. Stores, Supermarkets General, Dayton Hudson, etc.); reportedly made \$130 million selling stock back to companies. Latest: Zayre Corp. and a \$55-per-share bid for

Kroger Co. countered by a \$58.50 bid by Kohlberg Kravis Roberts & Co. Herbert paid \$1.7 million for Embassy Row (D.C.) English Tudor mansion, razed to build a "mini-Versailles." Son Robert: 35. Married, 1 son. President Dart, CEO Crown Books. Harvard Business School grad. At 24 launched Crown (now over 200 discount book stores). Brother Ronald, 29, runs Combined Properties. Sister Linda, 37, exec. vp Dart's financial arm. Combined fortune exceeds \$400 million.

Hillenbrand

Batesville, Ind. et al. Descendants of John A. Hillenbrand, grandson of German immigrant, went from lumber to casket industry turn of the century; bought bankrupt coffin co. 1906. Invention of gasketed closure mechanism enabled mass marketing of airtight, waterproof metal caskets post WWII. Began Hill-Rom Co. (hospital furniture) 1928; invented electric hospital bed. Today Hillenbrand Industries synergistic: leading manufacturer of burial caskets as well as electrically operated hospital beds. Also: American Tourister, Medeco Security Locks, SSI Medical Services; 1987 sales: \$725 million. Low debt leaves cash for acquisitions, expansion. Stock more than recovered from 1987 crash damage; family's 62% worth \$690 million.

Hixon

Pasadena. Joseph Hixon ensured family fortune with major investment in AMP stock; by 1959 held 45% of company that makes crucial connectors for electronics industry, computers. AMP now has about 18% of world market. Well favored on Wall St., institutions hold 74% of stock. Current generation merged family firm, Midland Investment, into AMP 1981. Joseph's son Frederick (d. 1978) settled in San Antonio, invested in ranches, oil. Another son, Alexander (AMP director until 1987), lives in Pasadena, travels, golfs (wife Adelaide sponsors women's golf tournaments). AMP holdings, if retained, now worth over \$630 million.

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Houghton

Corning, N.Y. Descendants of Amory Houghton, started Corning Glass Works 1851; produced first glass light bulbs for Thomas Edison 1879. Acquired Steuben Glass; opened "swank" gallery during Depression. Company history as great innovator (glass bulbs, tv tubes, fiber optics, medical instruments, biotechnology). Fifth generation now dominates company, CEO James wants "not just... uncompromising quality"—out to make company "leaner, more focused." Requires all employees, even factory workers, to take statistics course to increase efficiency. Corning's 1987 revenues over \$2 billion. Aggregate family stockholdings worth \$400 million.

Hoyt

NYC area and Santa Fe, N.M. Princeton grad Henry Hamilton Hoyt left import-export business to join father-in-law's Carter Medicine Co., maker of Carter's Little Liver Pills, 1929. Hoyt anonymously bought control so he could cut dividends, develop products. "I believed in the axiom that a business cannot stand still. It either grew or disappeared behind its more enterprising competitors." Retained NYC chemist John Wallace to develop deodorant/antiperspirant; introduced Arrid 1935; Nair 1940; Rise shaving cream 1949. First ethical drug product: Miltown tranquilizer, 1955. Health care, including laxatives, analgesics, antibiotics, now 47% sales. Dropped "Liver" from name of pills after 17-year suit led to Supreme Court decision 1959. Added Pearl Drops tooth polish 1971, Trojan condoms 1985. Henry Sr., 93, now retired. Hoyt family's 58% stock worth \$330 million.

Hunt brothers

Oil. Dallas. Three sons by first marriage of oil baron, bigamist H.L. Hunt (see also Margaret Hill, Caroline Hunt, Ray Lee Hunt), who used poker winnings to buy untapped east Texas oilfields (d. 1974); considered world's richest man 1960s. Sons born speculators; attempt to corner silver market exploded 1980. Forced to sell major holdings in \$1.1 billion Federal Reserve-ar-

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Family Fortunes

ranged bailout. Subsequent oil patch decline put crown jewel Placid Oil in Chapter 11 1986, drilling arm Penrod in default. Nelson (Big Bunk) Bunker, 62, nondrinking gambler, John Bircher. William Herbert, 59, oversees real estate interests now severely in hock. Has father's contempt for high living, was seen in 2-hour gas line waiting patiently during 1979 crisis. Lamar, 56, cofounded American Football League at 26; owns Kansas City Chiefs, two amusement parks ("Worlds of Fun"). Rides subway when in NYC. Just after presenting plans for a \$1.2 billion bankruptcy settlement, brothers hit with \$134 million judgment from silver debacle (now being appealed), net of which believed worth over \$600 million, but Nelson, Herbert filed Chapter 11 again in September, this time personally.

Idema

Wege

Hunting

Office furnishings. Grand Rapids, Mich. Peter Wege (d. 1947), sheet-metal craftsman and holder of six patents, had idea for fireproof metal office furniture; launched own firm 1912. Instant success with first metal wastebasket. Prospered in 1920s, survived Depression (worked longtime employees part time to keep them). In 1934 co. patented modern-day suspension file cabinet. Changed name to Steelcase 1954. Henry Idema (d. 1951) one of original investors; David Hunting (now 96) joined later, bought other investors' interests. Henry's son Walter set up tight financial control; daughter Mary married current CEO, Robert Pew, 65 (of Pew family, *which see*). Hunting became sales chief. Policies—tight controls, quality design, aggressive marketing, exclusive dealerships (over 500 today), good pay and benefits in nonunion shop—made Steelcase biggest name in office furniture (fiscal 1988 sales \$1.6 billion, about 22% of market). Almost all Steelcase stock held by descendants of these three men. Shared fortune from Steelcase far exceeds \$1.2 billion.

Johnson

Inheritance. Johnson & Johnson. Six children of John Seward Johnson (d. 1983). Court battle with Johnson's third wife Barbara Piasecka Johnson (*which see*) settled out of court. J. Seward Jr. received \$12 million, others \$5.9 million from estate. In addition, each child got trust 1944; today, if intact, each would be worth \$110 million. Not all intact. Mary Lea Johnson Richards: NYC. 62. Coproducer with husband Martin of Broadway hits (22 Tonys so far) and movies (*Fort Apache, the Bronx; The Shining*; etc.). Her children taking her to court; claim she invaded trust for \$3 million a year over last several years. 1986 settlement plus remaining trust assets worth \$76 million. Elaine Johnson Wold: Boca Raton, Fla. 61. Husband, nonpracticing ophthalmologist, handles their investments. Worth \$97 million. J. Seward Johnson Jr.: Princeton, N.J. 58. Sculptor (specializes in life-size groups—gets up to \$45,000 for one of his works). Received largest settlement, including Cape Cod house, but invaded trust; worth \$44 million. Diana Firestone: Waterford, Va. 56. With husband, raises Thoroughbreds; 1980 Kentucky Derby winner with Genuine Risk. Worth \$73 million. Jennifer Johnson: Jacksonville, Fla., NYC. 47. Photographer and gallery owner in partnership with brother James. Her trust virtually intact, worth over \$121 million. James Johnson: Oldwick, N.J., East Hampton, N.Y. 43. Operates New Jersey farm; also an accomplished painter (oils, representational). His trust, virtually intact, worth over \$121 million. Visible total over \$530 million.

Jordan

Retailing, publishing. Origin: Boston. With a dollar as capital, 14-year-old Eben Jordan left Danville, Me. in 1836; headed for Boston. Worked as farmhand, errand boy. At 29 (with partner Ben Marsh) founded Jordan Marsh 1851 (later sold to Allied Stores). Along the way invested heavily in *Boston Globe*. Prominent among Jordan heirs: Dorothy (Mrs. Randolph A.) Kidder, her 2 children. Husband

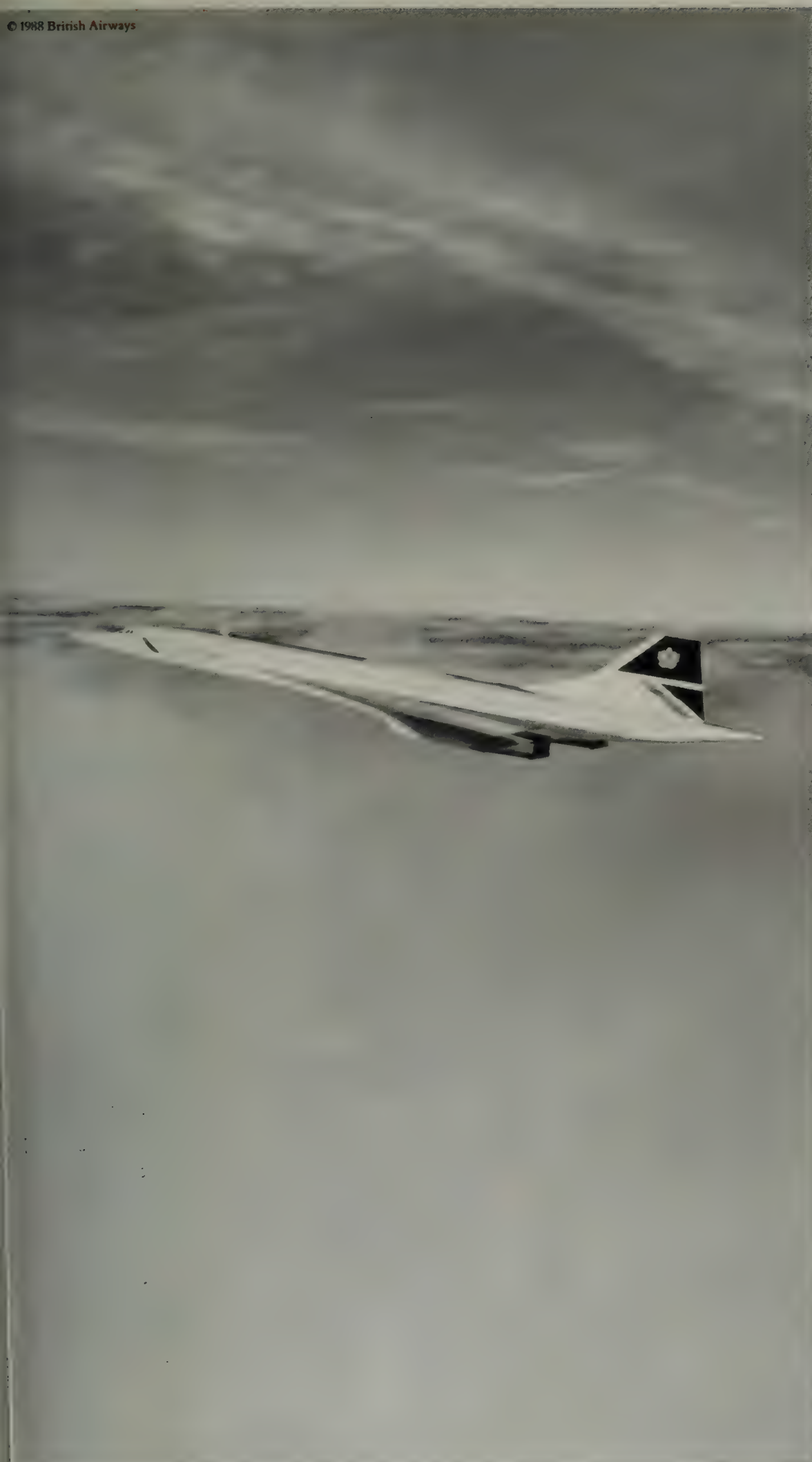
ambassador, briefly, to Cambodia 1964. She is beneficiary of about one-third of Jordan trust. Its assets now primarily 28% ownership of Affiliated Publications. Trust ends 1996. New Class B voting shares should ensure control of AP remains with Taylor family (*which see*) if Jordans want to sell out. Fortune exceeds \$550 million.

Kelley

Honolulu. Roy Cecil Kelley landed in Hawaii 1929 after USC architecture study. Glimpsed Waikiki's future as middle-class "tourist factory." Designed hotels, borrowed \$10,000 to construct six-unit house 1933. Built first hotel 1947: no frills, low rates, high occupancy: "An empty hotel room is an opportunity lost forever." Expanded steadily into 23-hotel, over 8,000-room Outrigger chain, now largest in Hawaii. Roy, 83, retired; company managed by son Richard, 54, Harvard-trained as pathologist. Daughter, several grandchildren, in-laws also in business. Added 2 hotels 1986, began managing others (first management contract signed 1988), claims substantial debt. Combined fortune (including Roy's stock portfolio, other real estate) at least \$500 million.

Kennedy

Boston origin. Son of middle-class Boston Irish, Joseph P. Kennedy boasted he would make a million by age 35, borrowed to take over bank age 25; played stock market, sold out before Crash on shoeshine boy's tip; later, as first head of SEC, outlawed tactics that made him rich. Married daughter of Boston Mayor John F. (Honey Fitz) Fitzgerald 1914; ambassador to Court of Saint James's for FDR. Some of 9 children carried on political dynasty: John F., senator, President; Robert F., senator, Attorney General; Edward M., senator. In third generation Joseph P. Kennedy II has Tip O'Neill's old House seat; cousin Patrick has R.I. House seat. Joe Sr. died 1969, left trusts, real estate (including Chicago Merchandise Mart), oil and gas interests, stocks managed by family's Park Agency estimated over \$600 million.



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Family Fortunes

King

Short Hills, N.J., NYC, Calif., etc. Charles King (d. 1972), pioneer radio syndicator 1930s; hit by advent of television; formed tv syndicator King World Productions 1964. Sons Roger, Michael took over, hit jackpot early 1980s buying rights to *Wheel of Fortune*, *Jeopardy!*—total 1987 revenues: \$240 million. Also *Oprah Winfrey Show*. Michael: "I'd rather be lucky than smart; get them both and it's outrageous." Four siblings hold nearly 10% King World stock apiece: Roger, 44, chairman; Michael, 40, CEO; Diana, 39, vp; Richard, 47. Sister Karen quit 1986, her reduced stake now 5%. Eldest brother Robert sold out for \$1.7 million before company went public 1984. Roger sentenced 1987: two years' probation on auto theft, cocaine charges; entered alcohol treatment center. King World bought Buffalo tv station for \$100 million. Family worth over \$300 million.

Kleberg

King Ranch, Tex. Richard King, Rio Grande steamboat captain, bought Spanish land grants south Texas 1850s. Robert Kleberg beat him in a lawsuit; married his daughter. Bob Jr. sold drilling rights to Humble Oil (now Exxon) 1933; first wildcat strike 1945. Annual royalties hit \$100 million in early 1980s. Now one-third that. Oil profits put into ranching. Developed high-bred, humpbacked Santa Gertrudis cows, now 40,000 head on an 825,000-acre ranch (bigger than Rhode Island). Also Fla. farm, Ky. horse farm, Australia ranch. Since 1984 hard times in oil and cattle have driven traditionally paternalistic family to cut no. of employees drastically. This year first nonfamily board appointed, headed by Darwin Smith of Kimberly-Clark. About 60 heirs. Despite drought, total assets believed worth \$1 billion

Kohler

Kohler, Wis. origin. John M. Kohler bought iron foundry 1873; enameled a hog scalding and sold to local farmer for 1 cow, 14 chickens. Ex-

panded to sinks, toilets, etc. Son Walter pioneered color-coordinated fixtures 1920s; Wisconsin governor 1929-31. Grandson Walter Jr. also governor (1951-57). Founder's grandson, Herb Jr., 49, current family leader, company pres. and chairman. After brief stage career, worked throughout company, took over 1972. Natural at marketing: "I felt we could change the whole function of the bathroom and make it stimulating, possibly even social." Last year broke new barrier: "It took us 114 years to reach \$1 billion in net sales and \$50 million in net income. The next plateau should come a bit sooner." Family worth at least \$460 million.

Lawrence

NYC area. Heirs of Sylvan Lawrence, whose great-grandparents planted roots of NYC real estate empire 1860s. Sylvan flirted with college twice, sold bikes for father-in-law NYC. Drugstore soda jerk 1946; big brother Seymour Cohn (*which see*) asked him to join family real estate firm. Bros. gradually made own deals, Seymour put firm in Sylvan's name as lucky charm; built large lower Manhattan office empire, at peak some 12 million sq. ft. Seymour: "Being brothers we had a tremendous edge. We went to work together, we came home together. We always worked Saturdays. Sundays we'd talk real estate." Sylvan battled cancer; after death 1981, co. sold many properties for \$600 million, kept 4 NYC buildings. Seymour: "I never looked at it as if we were two people. We were one." Sylvan's heirs' interest at least \$460 million.

Lilly

Indianapolis et al. Descendants of Col. Eli Lilly, Civil War vet who opened chemist's shop downtown Indianapolis 1876, after disastrous cotton farming attempt in Miss. Lilly's laboratory had 4 employees. Son Josiah K. took over 1901. Grandsons Eli, J.K. Jr. turned Lilly into major drugmaker, 1987 revenues \$3.6 billion. Introduced first commercial insulin 1920s; barbiturates 1930s; encouraged early production of antibiotics 1940s; Salk

polio vaccine 1950s; marketed first drug based on gene-splicing technology (Humulin) 1982. Diversified into medical equipment, agricultural chemicals, animal health products, cosmetics (Elizabeth Arden, sold 1987). Lawsuits: Oralflex, DES, Darvon 1970s-80s. Established \$2 billion charitable trust for Indiana educational, religious, black institutions. No Lillys now in top management; only 2 branches, some 10-15 members, share fortune worth \$1.2 billion if co. stock still held.

Lykes

Florida, New Orleans et al. Descendants of Dr. Howell Tyson Lykes (d. 1907). Gave up medicine to become Florida rancher 1870s when inherited 500 acres near Brooksville. Acquired more, with his 7 sons amassed fortune raising, shipping cattle to Cuba. Moved to Tampa 1895; expanded to other regions, branched into shipping 1940s. Lykes Corp. added insurance, banks, real estate, citrus, steel. Merged with LTV Corp. 1978; escaped mostly unscathed from famous LTV crash 1986. Bought back steamship line 1983: "Like losing a member of the family." Own 60% Glades County, other Fla. properties (350,000 acres) plus large Texas ranch. Great-grandson Thompson Lykes Rankin, 48, heir apparent. Some 200 family members share empire worth at least \$900 million.

Mack

NYC and Long Island, N.Y. Heirs of Russian immigrant Philip Mack, who founded turn of the century construction/demolition co.; son H. Bert, and H. Bert's sons, built Mack Co. into pioneer suburban commercial development: industrial sites N.J. Meadowlands 1960s, office parks 1970s. Now over 11 million sq. ft. industrial space, 5 million sq. ft. office. Also projects Tampa, Fla., N.J. and Ariz.; some venture capital plays. Moved on Wall Street 1980s: backed Paul Bilzerian in 1986 Hammermill Corp. bid, profit to Bill, Earle and Bilzerian \$58 million; Arkansas Best 1988. With partner, reportedly offered \$80 to \$85 million for Eddie

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Family Fortunes

Chiles' Texas (baseball) Rangers 1988. Brothers William, Earle, David, Fred run Mack Co.; worth at least \$500 million.

Mandel

Shaker Heights, Lyndhurst, Ohio. Premier Industrial Corp. Three brothers, Jack, 76, Joseph, 74, and Morton, 67, pooled \$900 in 1940 to buy uncle's auto-parts shop. Found lucrative market niche for nuts, bolts and obscure auto parts to low-volume, high-paying customers. Went public 1960. Now leading distributor electronic components, maintenance products. Steadily growing business grossed \$459 million 1987. Chairman Mort: "Our destiny is for Premier to be a multi-billion-dollar, multinational company." Private, civic-minded, charitable. Support Cleveland rejuvenation. Brothers' 40% of Premier plus other holdings greatly exceed \$550 million.

McClatchy

Sacramento, Calif. et al. Descendants of James McClatchy, Irish immigrant reporter for Horace Greeley's *New York Tribune*. Helped start *Sacramento Bee* 1857; later bought by family. Grandson Carlos added *Fresno Bee*, *Modesto Bee*; died young. Granddaughter Eleanor (d. 1980) took over 1936. Used papers for political purposes, shunned publicity, built wall around her home: "I'm content to have people think I live in a cave and wear horns." Her nephews Charles Kenny (C.K.), 61, and James, 67, now in charge; also liberal but not a political force. Bought floundering *Anchorage Daily News* 1979, now crushing competitor. Took co. public 1988. Eight family members control 99% of vote through exclusive Class B stock worth over \$400 million.

McDonnell

St. Louis. Family of James S. McDonnell Jr., founder of McDonnell Aircraft Corp. 1939. "Mr. Mac" fascinated with paranormal, early fighter planes named Devil, Voodoo and Phantom. Designed, built

Mercury space capsule used for John Glenn's earth orbit. Merged with Douglas Aircraft 1967. Died 1980; nephew Sanford succeeded as chairman. "Sandy" retired March, succeeded by James' son John F., 50. James III, 51, vp. McDonnell Douglas today nation's largest military contractor: 68% of \$13.3 billion sales (1987). Leader in fighter aircraft; also makes commercial jetliners, missiles, space systems. Developed MD-11, new long-range transport aircraft. Lately, govt. cutbacks, competition, Justice Dept. fraud and bribery investigation. John: "We are not aware of any improper conduct." McDonnell family stock, other assets worth at least \$350 million.

McGraw

NYC et al. Founder James H. McGraw, schoolteacher, hawked magazine subscriptions on the side, 1880s. In exchange for back pay, took stake in sick railroad publication; revived it. By late 1920s owned 20 magazines and book business. McGraw-Hill now \$1.8 billion (sales) information conglomerate: magazines, 4 tv stations, Standard & Poor's, information systems. Major textbook and trade journal publisher. Grandson Harold W. Jr., 70, joined as book salesman 1947. Fended off \$1 billion takeover by American Express 1979. Retired April 1988. Wants son Harold W. III (Terry), 38, who runs financial services division, to take over some day. Still takeover target: one of few independent publishers left, run by outsider. At least 30 scattered descendants share 20% McGraw-Hill and other holdings worth around \$635 million.

Mead

Consolidated Papers. Wisconsin Rapids, Wis. George W. Mead left Illinois furniture store for Grand Rapids 1902 to settle affairs of deceased father-in-law; ran hydroelectric, paper conglomerate until qualified paperman found. Stayed 59 years; built first electrically powered paper machines; turned profits back into co.; died 1961. Son Stanton, now 88, modernized co. during presidency (1950-66); con-

servation, forestry philanthropist, retired 1966. Grandson George II, 61, worked around company 14 years before presidency; later chairman. Company sales for 1987: \$743 million, high-grade magazine paper. Still have first account, also *FORBES*. "We have no strategy here, no grand design." At least 80 family members share 41% worth over \$800 million.

Mellon

The Plains, Va.; Ligonier, Pa. Heirs of Ailsa Mellon Bruce (daughter of Andrew Mellon) and Richard King Mellon. Ailsa's grandchildren recipients of generous trusts. Their parents, Audrey Bruce (Ailsa's daughter) and Stephen Currier, died in Bermuda Triangle plane crash 1967. Maternal grandfather, David K.E. Bruce, ambassador to four countries; Congress adjourned on wedding day, 1929. Ailsa died 1969. Grandson Michael, 27, active in family investments for himself and sisters Andrea C. Patterson, 32, and Lavinia, 31. Richard King Mellon branch: grandson of Judge Thomas Mellon (d. 1908), R.K. dominant businessman in family ("I hire company presidents") from 1930s to death 1970. Son Seward (Pross) director Mellon Bank, president family investment firm, Richard K. Mellon & Sons. Brother Richard tried banking, switched to conservation, oceanography; chairman Richard King Mellon Foundation. Sister Cassandra Milbury active philanthropy, public affairs. Combined net worth, including trusts, of these two families should exceed \$1.2 billion. (See also other Mellons, May, Scaife.)

Murphy

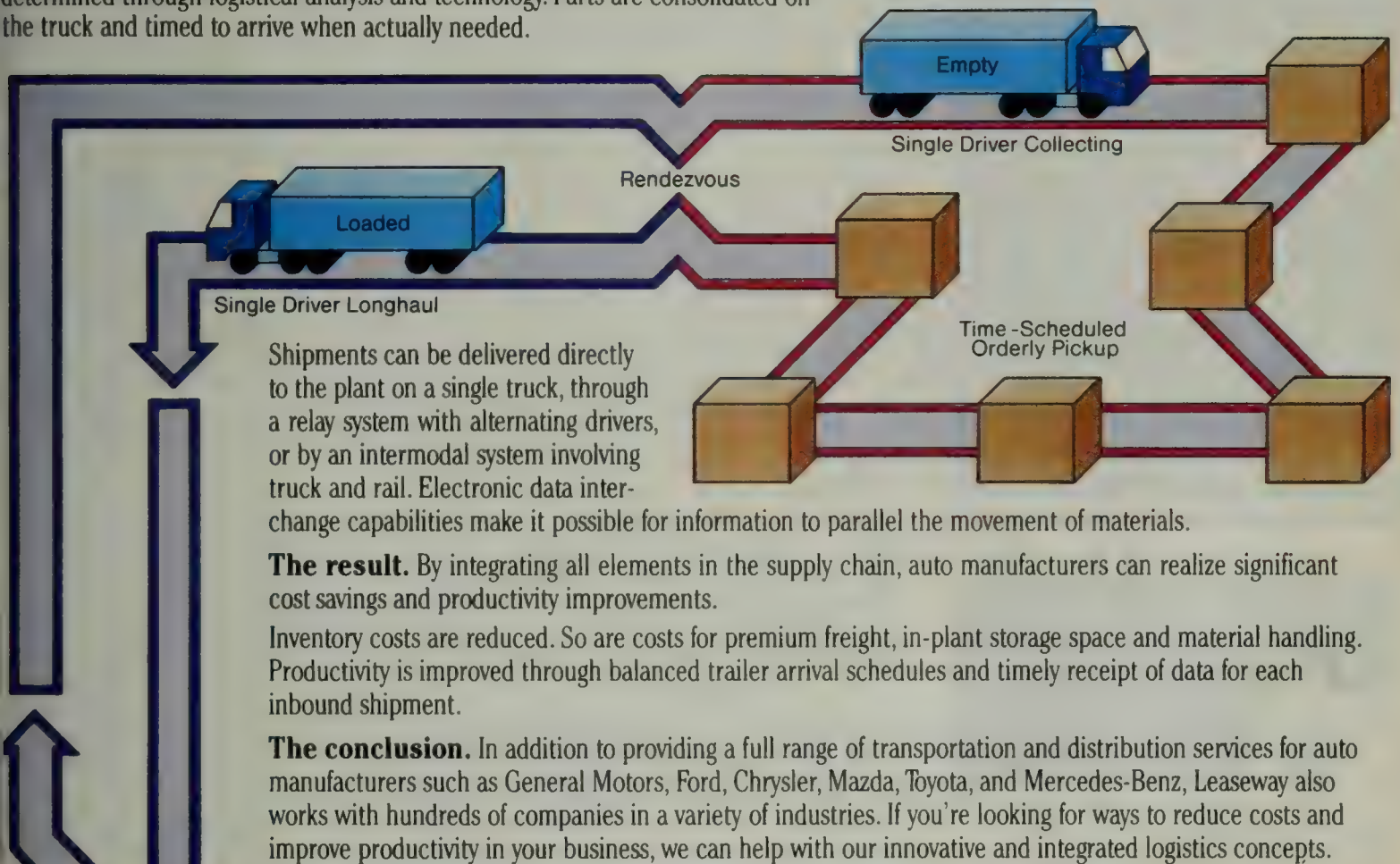
Murphy Oil Corp. El Dorado, Ark. Banker Charles Sr. (d. 1954) acquired land, timber, struck oil 1907 in La. Son C.H. Murphy Jr. started own oil-producing co. at 16 with \$5,000 from grandfather, took over for ailing father at 21, went public 1956. Studied classics at home: "I don't care a thing about business schools. They don't teach people to think. You get that from the classics." Built integrated co. with intl. refineries and reserves. Recent im-

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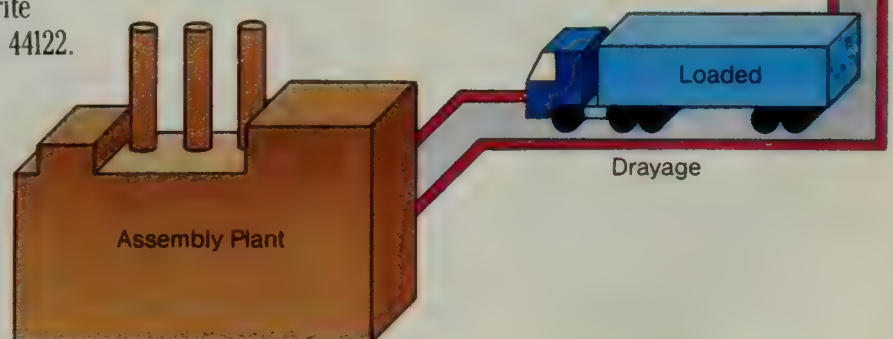
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Family Fortunes

provement in refining margins helped revive co. from profits slump. Charles Jr., 68, retired as CEO 1984; still chairman, 3 sons in co.: Charles III (Chip), 35; Madison, 31; Michael, 40. 50 descendants' 35% stake worth \$600 million.

Nordstrom

Seattle. Swedish teen John Nordstrom immigrated to U.S. with \$5 in 1888, went west. Learned English as mine worker, lumberjack; settled in Seattle, opened shoe store 1901. By his death (1963), family had built largest independent shoe chain (27 stores), diversified into women's fashion; added menswear 1968. Nordstrom Inc. now leading fashion retailer (1988 sales, \$1.9 billion, 48 stores), known for exceptional customer service. "When the customer talks, we jump." Founder's grandsons James, Bruce, John run show. Opened first East Coast store near Washington, D.C., bought out minority shares in family-owned Seattle (football) Seahawks 1988, now looking to sell. With stock, other assets now worth at least \$1 billion.

O'Connor

Victoria, Tex. Descendants of Thomas O'Connor (d. 1887), Irish immigrant as teenager early 1830s; fought in Texas War of Independence 1836. Built 500,000-acre ranching empire in south Tex.; passed on to 2 sons who expanded, experimented with cross-breeding cattle; developed Braford variety more adaptable to Gulf Coast climate; now about 350,000 acres in Tex., more out-of-state. Huge oil discoveries on their land 1931. Tom O'Connor field still one of richest in Texas; huge royalties. Also banking, to keep the money: large stake Victoria Bancshares chain. Senior family members Dennis, 81, Tom, 72, still hold directorships, tight rein over family dealings. Ranching tradition, ties to land strongly emphasized: "We're just caretakers for the next generation." Publicity-shy; no jet-setting: "The cows and horses wouldn't understand that." About 30 family members share fortune exceeding \$425 million.

Pew

Philadelphia. Publicity-shy descendants of Joseph Newton Pew Sr., teacher/real estate salesman who founded Sun Oil Co. 1886; pioneered techniques to cap, transport natural gas in western Pa. Bought into massive Spindletop gusher 1901; expanded Texas oil explorations; died at desk 1912. Son J. Howard took over 1912-47; picked nonfamily successor, then came out of retirement to head co. 1963-69. Strict Presbyterian, Republican, teetotal family traditions; informal affiliation with John Birch Society. Great-great-grandson of founder, Andy Pew, 51, head of Sun subsidiary, now only family member in co.; also sits on board of Pew charitable trusts. Large, dispersed family spread all over U.S., estimated to share 6% Sun Co. stock worth over \$360 million.

Phipps

Pittsburgh origin. Henry Phipps (1839-1930), son of Philadelphia cobbler, grew up Allegheny, Pa. Became partner with neighbor Andrew Carnegie, pioneered Bessemer steelmaking process. Took \$50 million in stock on sale to J.P. Morgan 1901. Moved to NYC. Established Bessemer Trust (1907), split among 5 children. Trust part of Bessemer Group, owned by Phippses. BG now manages over \$5.3 billion for outside clients, \$1.5 billion for Phippses. Average 9.8% return 1987. Family in fifth generation; some 150 members living mostly in NYC, Fla. Litigation, ill will over trust management. Phipps heirs include Howard Phipps, sister Anne Sidamon-Eristoff, who share estimated \$400 million portion; socialite Guests (including publicity sponge Cornelia), etc.; share investment portfolio, real estate, shipping, energy interests worth estimated \$1.9 billion.

Pigott

Seattle. Descendants of William Pigott Sr. Founded Pacific Car & Foundry 1905, logging equipment co. turned railcar manufacturer. Purchased Kenworth Trucking Co. in 1945. Paccar Inc. now \$2.4 bil-



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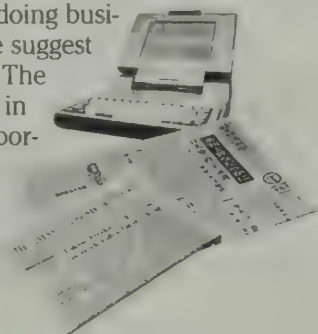
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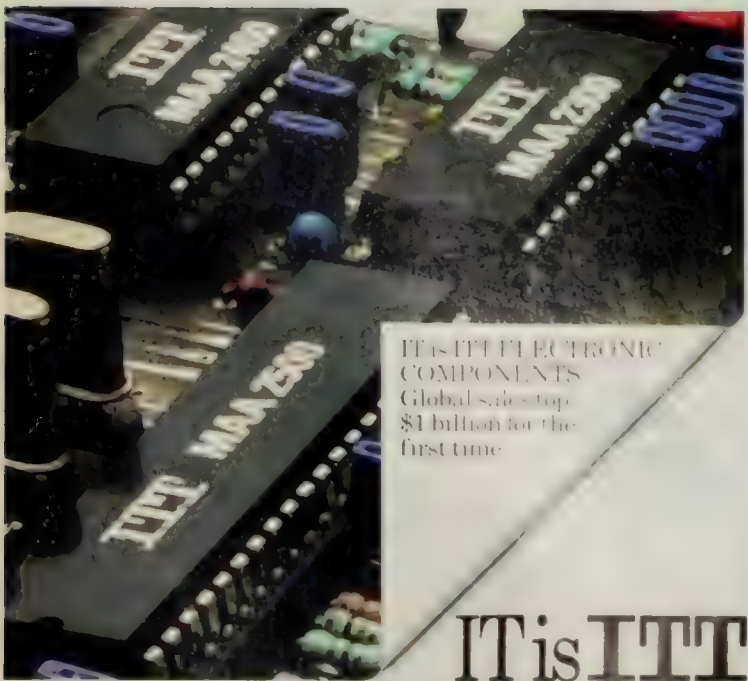
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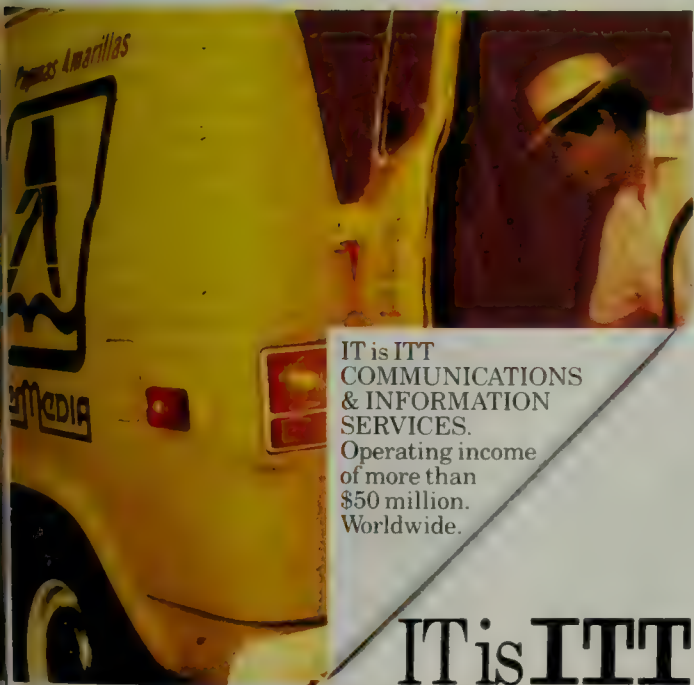
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Family Fortunes

lion (1987 revenues) heavy truck manufacturer: Kenworth, Peterbilt Motors Co. Also manufactures, retails equipment for oil and mining cos.; auto parts. With solid demand for heavy trucks, profits expected up 50% in 1988. William's grandchildren: Charles, 59, chief executive, chairman of Paccar: stepped down as president of Boy Scouts of America 1988. James, 52, still on board, now owns management consulting firm. "I left Paccar because I have an entrepreneurial bent." Over 30 family members are believed to own 40% of Paccar. Stock plus other assets worth over \$610 million.

Pitcairn

Bryn Athyn, Pa. et al. John Pitcairn, Scottish immigrant, formed glass-making factory on Allegheny River 1883. Fight with partner created competing companies: PPG and Libbey-Owens-Ford. Pitcairn's PPG expanded to chemicals. Family are cofounders, benefactors Swedenborgian church in Pa.; John's son Raymond designed cathedral. Last Pitcairn in PPG retired 1935, though family members on board. Heirs retained 14% equity until 1985. Holding company dissolved 1985. Assets now managed by Pitcairn Financial Mgmt. Group. After decades of secrecy co. now opening doors to high net worth families: money manager; estate-, financial-planning; information systems. Claim \$1.4 billion assets, with church trusts. Family assets estimated at \$650 million.

Pulitzer

St. Louis et al. Descendants of Joseph Pulitzer (1847-1911), penniless Hungarian immigrant settled in St. Louis after Civil War, paid \$2,500 for bankrupt *Dispatch* 1878; encouraged muckraking, yellow journalism. Later merged with *Post*, bought out partner. Purchased *New York World* 1883; built into dominant U.S. paper, now defunct. Founded first journalism grad school, Columbia 1903; established Pulitzer Prizes. Pulitzer Publishing now 4 dailies, over 80 weeklies, 2 radio stations. Dissident family members bought out for \$187 million 1986; result: 18% public

offering. Family trust, controlled by grandsons: Joseph Jr., 75, half-brother Michael, 58, cousin David Moore, 64, retains 98% voting power. Joseph Jr.: "I was not trained by my father to liquidate." Fortune exceeds \$440 million.

Richardson

Greensboro, N.C., Connecticut et al. Pharmacist Lunsford Richardson sank life savings (\$8,000) in small N.C. drugstore; sold 1907 to finance creation: Vicks Vaporub (named after brother-in-law). "I had seen a vision, I had dreamed dreams of a worldwide business." Dream realized: Post-WWI flu epidemic quadrupled sales. Son H. Smith Sr. (d. 1972) developed Vicks Chemical into international firm, later renamed Richardson-Merrill Inc. (Cepacol, Bendectin). Sold to Dow Chemical 1981 for \$80 million stock, created Richardson-Vicks (Clearasil, Nyquil). Reluctantly merged with Procter & Gamble for big profit 1985. Family's conservative investments include two venture capital forays (Vanguard Cellular Systems, Hanbro International), real estate. Close familial ties; quarterly newsletter, biennial meetings. Over 200 descendants share fortune worth over \$550 million.

Robins

Richmond, Va. Albert Hartley Robins founded A.H. Robins drug firm 1866; grandson E. Claiborne joined business 1933 (sales, \$4,800), hit the road selling. By 1948 sales \$1 million; made Robitussin, Chap Stick, Sergeant's pet products. Beginning of end with Dalkon Shield 1971, over 4.3 million sold in 3 years. Birth control device not recalled after complaints of harmful effects, deaths; pulled from U.S. market 1974. Federal judge refused co. request to consolidate litigation 1984: "Confession is good for the soul, gentlemen. Face up to your misdeeds and rectify this evil situation." Company filed for bankruptcy 1985 after 330,000-plus claims filed, \$530 million in settlements paid. Observer: "What we see here is that they were intending to fight these cases out, one by one." Accepted

\$3-billion-plus buyout by American Home Products 1988, of which at least \$2.3 billion to trust fund for Dalkon Shield victims. Family gets AHP stock; with other assets, worth over \$300 million. Justice?

Rockefeller (John D.)

NYC et al. Descendants of John D. Rockefeller, world's first billionaire, founder of Standard Oil. Accounting clerk who saved money, invested in merchant grain business 1858; put \$4,000 into oil refining 1863 as sideline, changed mind. By 1870, Standard Oil capitalized with \$1 million, went on to form legendary monopoly. Furor over Standard Oil trust led to breakup 1911. To marry Abby Aldrich, only son John Jr. gave her father long, earnest recitation of his financial prospects (Mr. Aldrich approved). Between them father, son gave over \$1 billion to charity before 1960, when \$1 billion still a lot of money. Jr. had 6 children: daughter Abby, sons J.D. III, Nelson, Winthrop (all deceased) and surviving sons Laurance, David. John D. III (d. 1978) had 4 children: John D. IV (Jay) worked as Peace Corps adviser, Appalachian social worker. Governor W.Va. (1977-84), now U.S. senator (spent over \$12 million on race); rumored considering presidency. Nelson (Rocky) (d. 1979) gregarious leader of brothers' generation; liberal Republican, 4-term governor New York, three-time contender for Presidency, Ford's Vice President: Left 4 children by first marriage, 2 by second wife Margaretta (Happy) Fitler Murphy. Fledgling real estate ventures by some. Abby Mauzé (d. 1976): Had 2 daughters; Abby Milton O'Neill trustee Rockefeller Brothers Fund, investments handled by husband George. Sister Marilyn Milton (d. 1980), left fortune to 2 daughters. Three branches' combined share of family fortune estimated over \$2 billion. Total fortune estimated \$4.8 billion (see also David, Laurance, Winthrop Rockefeller).

Rockefeller (William)

Greenwich, Conn.; NYC et al. Founding father William Rockefeller (1841-1922), genial brother of

John D. Rockefeller, ran Standard Oil of N.Y. (now Mobil) until trust busted 1911. Controlled as much as 12.5% of trust, plus extensive RR, utility stocks. Two sons married daughters of James Stillman, head of National City Bank of N.Y. (now Citibank). Daughters married into McAlpin, Dodge fortunes. Family holds energy stocks, land in Greenwich; conservative, decentralized management of assets, some run by Andrew Rockefeller, 59, William's great-grandson. Some 75 heirs share in fortune believed well over \$350 million.

Rose

NYC. Jerusalem-born David (d. 1986) cofounded Rose Associates with brother Samuel (d. early 1960s) in Bronx 1920s, later moved on to Manhattan. David built firm into one of NYC's oldest, biggest apt. builders, managers; Samuel's sons Frederick, Daniel and Elihu (all Yalies) now run Rose. Company owns, manages apts., office space NYC, Boston, D.C. Fred builds, Dan plans, Elihu manages (associate: "Just like Larry, Moe and Curly"). Brothers keep low profile, claim little equity: "We're working furiously to become big enough to justify inclusion. In the meantime, we're just folks." NYC real estate peers vehemently assert otherwise; safe estimate: over \$350 million. Family friend: "You're way under on them."

Rosenwald

Pa., NYC et al. Julius Rosenwald (d. 1932), mail-order pioneer, gained control Sears, Roebuck after founders sold out (Alvah Roebuck, 1895; Richard Sears, 1913). Built into largest merchandise retailer in world. Envisioned company as central to people's day-to-day lives: "the buyer for the American farmer." In Sears' dark hours of 1921, bailed out company with own money. Carried in to work by his chauffeur just before he died. Family said to hold much well-hidden stock plus other investments. Son Les-sing (d. 1979), former chairman, assembled major art collection; grandson Julius II owns about \$3 million in Sears stock. Son William, 85, today believed richest member, over 90% American Securities Corp.; daughter Elizabeth Rosenwald Varet owns \$12 million

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Family Fortunes

stake in Ametek, Inc. Grandson Edgar Stern only descendant on Sears board, owns stake worth \$12 million. Total family fortune believed \$300 million or more.

Scripps (E.W.)

Origin: Cincinnati. Inheritance, newspapers. Grandchildren of populist publisher Edward Wyllis Scripps (d. 1926), who launched *Cleveland Press* at 24. "Damned old crank" founded UPI, built nation's onetime largest newspaper chain, Scripps Howard. Many properties since sold or folded. Family long feuding: E.W. broke early from half-brother James (*which see*). Grandson John P. formed own chain 1928, merged back 1986. Son James G. left to start Scripps League 1931, still solo. E.W. Scripps Co. recently taken public: holds newspapers, majority of public Scripps Howard Broadcasting (tv, radio, cable); family controls 81% E.W. Scripps Co. Shares in 1922 trust until last of 4 grandchildren dies, then split among 28 heirs; as a group worth over \$1.2 billion.

Scripps (J.E.)

Detroit. Descendants of James Edmund Scripps (1835-1906), English immigrant who arrived in Illinois 1844 with new concept: simple, punchy articles for "people's press," big change from purple prose of the time. Sold family farm, borrowed heavily, started tabloid *Detroit (evening) News* 1873. Successful formula applied elsewhere. Bitter split with half-brother E.W. (*which see*) early 1900s. Daughter married Scripps executive George Booth, who founded separate chain. Heirs ran cos. independently. Booth Newspapers sold for \$300 million 1976 (34% family stake), Evening News Assn. sold to Gannett for \$717 million 1985; president, Peter Clark, 59, now Gannett director. Over 50 descendants share fortune worth some \$780 million.

Segerstrom

Orange County, Calif. Charles John Segerstrom came to U.S. from Sweden 1882, arrived Orange County

1898 with wife, 11 children. Started farming on 40 leased acres, built up land holdings with four youngest sons; died 1928. By 1950s C.J. Segerstrom & Sons nation's leading grower large lima beans. Family still farms 180 acres, but third generation, led by Henry, 65, and Harold Jr., 60, diversified into real estate after WWII. Crown jewel: South Coast Plaza, largest mall in U.S., estimated \$600 million sales, 2.7 million sq. ft. Zoning referendum holding up development of Costa Mesa office space. Led drive to build Orange County Performing Arts Center. Henry, mother Ruth, 90, cousin Harold partners in firm with equity over \$500 million.

Shoen

Phoenix, Ariz. 7 sons and 5 daughters of Leonard Samuel (L.S.) Shoen. Worked as barber while in college, expanded to 4-shop chain in med school. Later, in Navy, dreamed up idea of move-it-yourself business: U-Haul, founded Ridgefield, Wash. 1945 with \$3,000 in home-designed trailers. Gave 95% of stock to kids; Dad kicked out 1986, age 70. U-Haul now recovering from 1987 slump, liquidated Mover's World. Profits up from \$2 million to \$13.5 million. "I expect 1988 profits to be more than that in the first quarter alone," says Edward (Joe), 39, chair-



The total estimated net worth of the family groups on these pages is \$75 billion.

man of parent Amerco, president of U-Haul. Father, now 72, with 2%, still in the wings. Private company worth at least \$300 million.

Smith

Origin: Chicago. Illinois Tool Works predecessor established 1912 by 2 Swedish toolmakers; eventually acquired by Smith family, also controlled Northern Trust Corp., "the bank of choice for Chicago's upper crust." Innovative company on cutting edge of fasteners industry (screws, bolts, washers, etc.); early 1960s milestone: plastic six-pack carrier. Diversified into packaging, computer keyboards, medical supplies. "We are very happy because we have a lot of small things going on around here." Large, too: over 30 domestic as well as 30 foreign plants. Fifth generation on board: Edward Smith, Harold Byron Smith, both 79; Harold Jr. chairs executive committee. Family controls at least 27% ITW, 22% Northern Trust worth over \$600 million.

Stone

Chicago. Joseph H. Stone left Russia about 1890, with sons Marvin and Norman, \$2,300. Became jobber of wrapping paper, twine in pre-Depression Chicago. At father's death 1936, sons (including youngest, Jerome) built first corrugated-box plant, expanded through acquisitions. J.H. Stone & Sons became Stone Container Corp. 1945. Current Chairman/CEO Roger talked family out of \$125 million Boise Cascade buyout offer 1979: "A lot of people thought we were a little crazy" to hold on. Not so crazy: Stone Container stock up 1,589% since Roger took over 1979. Acquisitions of last 5 years helped increase sales tenfold since 1979, to \$3.2 billion (fiscal 1988). Two surviving Stone brothers (Norman d. 1985), with family, control 24% worth \$485 million.

Stroh

Detroit. Eighteenth-century German brewers. Young Bernard arrived Detroit 1850 with \$150;

brewed beer, delivered barrels door-to-door with wheelbarrow. Stroh brewery grew slowly, survived Prohibition by making ice cream (still does). Lately seeks to survive by going national. Great-grandson and CEO Peter, 58, persuaded family to buy F&M Schaefer for some \$70 million 1981; then Schlitz for 70%-financed \$500 million 1982. Now third-largest U.S. brewery: nearly 22 million barrels, 16 beers, 1 cooler, 2 nonalcoholic drinks. Family now developing Detroit real estate at Stroh River Place. Four Strohs dominate private co.; almost 30 family members own stock worth \$700 million.

Stuart

Bellevue, Idaho; Los Angeles. Grandfather Elbridge Amos Stuart founded Carnation Co. 1889 in Kent, Wash. Paid \$25,000 for evaporated milk process; sold milk to prospectors en route to Yukon gold rush. Company grew, added Coffee-mate, Instant Breakfast, Friskies; sold to Nestlé 1985 for \$3 billion. Grandson Elbridge, 71, married to paleontologist Marion Butler Stuart; Carnation vp until 1961 split with father (Elbridge Sr., d. 1972) over latter's autocratic policy. Jr. raises cattle, alfalfa on secluded ranch; also site of Marion's private geologic museum. Dwight, 64, co. pres. 11 years, resigned 1983; wife, Maria, daughter of Philippines ex-senator Sergio Osmena. Grows alfalfa on 2,500-acre Calif. ranch. Stockholder suit alleging Carnation and Stuart brothers misled public prior to Nestlé takeover settled out of court last year for \$13 million (complainants sold stock while Carnation, negotiating with Nestlé, claimed not to know reason for sharp increase in price. But Nestlé official had warned would end discussions if any word leaked to public). Combined fortune worth over \$375 million.

Swig

San Francisco. Heirs of Ben Swig, who joined partner Jack Weiler (see family) in real estate. Ben moved to San Francisco 1946, Jack stayed NYC. Ben dubbed "fastest check-book in West" for philanthropy to Jewish, Catholic causes. Together built, bought commercial, hotel, residential properties; Swig, Weiler & Arnow now controls over 5 mil-



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| 1. AEG Corporation | 23. The Fairmont Hotel's President's Club | 45. The New York Land Company |
| 2. Aaron Rents, Inc. | 24. Federal Express Corporation | 46. The Ponchartrain Hotel |
| 3. Accountemps Inc. | 25. Ferrari North America | 47. Prime Computer, Inc. |
| 4. Air France | 26. Flying Tigers | 48. Qantas Airways Limited |
| 5. Alexander Proudfoot | 27. GE Plastics | 49. Rado Watch Co., Inc. |
| 6. Astra Jet Corporation | 28. The Guardian | 50. The Regent Hong Kong |
| 7. Audemars Piguet | 29. Guest Quarters Suite Hotels | 51. Riken America, Inc. |
| 8. Banco Do Brasil | 30. Hartmann Luggage Company | 52. Samsung Electronics America, Inc. |
| 9. The Beverly Hills Hotel and Bungalows | 31. Hayman Great Barrier Reef | 53. Samsung Group |
| 10. Braniff/American Express | 32. Hotel Okura | 54. Schott Corporation |
| 11. British Airways | 33. Jaeger-LeCoultre | 55. Sheraton Hotels World Wide Directory |
| 12. Brother Hotel | 34. KLM | 56. South African Airways |
| 13. Cadillac Motor Car Division | 35. Barry Kaye Associates | 57. Stetson Hat Company |
| 14. Campton Place Hotel | 36. The Lancaster Hotel | 58. Stone Container Corporation |
| 15. Chubb Group of Insurance Companies | 37. Leaseway Transportation | 59. Stouffer Hotels |
| *16. CIGNA Corporation | 38. Management Recruiters | 60. Sunkyong Limited |
| 17. CompuServe | 39. Mead Paper | 61. Toshiba America, Inc. Copiers Products Group |
| *18. Conrail | 40. Mitsubishi Electric Sales America | 62. Trusthouse Forte Hotels |
| 19. Daewoo | 41. Mobil Corporation | 63. US Sprint |
| 20. Doubletree Hotels | 42. Moore | 64. Uniforce Temporary Services |
| 21. Eterna Watch Corporation | 43. NCR PC Division | 65. Volvo Cars of North America |
| 22. Executive Jet Aviation | 44. NYNEX Corporation | |

Annual Reports

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|------------------------------|---------------------|--------------------------------|
| 66. Ameritech | 69. The Korea Fund | 72. Phillips Petroleum Company |
| 67. Canadian Pacific Limited | 70. MagneTek, Inc. | *73. Tandy/Radio Shack |
| *68. Conrail | 71. Parker Hannifin | 74. Veba AG |

Financial Products/Services Information

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| 75. D.H. Blair & Co., Inc. | 81. Long-Term Careplans Inc. | 85. Twentieth Century Investor Inc. |
| *76. CSX Corporation | 82. The New England | 86. US WEST Financial Services |
| 77. Chicago Board of Trade | 83. NIKKEI (Nihon Keizai Shimbun, Inc.) | 87. Van Kampen Merritt—Offering Products for Investing with Sense of Direction |
| 78. Chicago Mercantile Exchange | 84. SteinRoe Mutual Funds | |
| 79. Council on Foundations | | |
| 80. Donaldson Lufkin & Jenrette | | |

Area Development Information

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| *88. Conrail | 90. Indiana Northeast Development |
| 89. Indiana Department of Industry & Trade | 91. Oklahoma Gas and Electric Company |

MERRILL LYNCH

- | | |
|---|-------------------------|
| 92. Unlimited Opportunities Amid Diminishing Expectations | 93. 45 Tax-Saving Ideas |
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Family Fortunes

lion sq. ft., mostly NYC, SF. Own ritzy Fairmont Hotel chain (New Orleans, SF, Dallas, etc.); bought Weilers' 50% interest in hotels for estimated \$180 million 1982. "They were nongrowth oriented. We felt differently." Also co-own SF office buildings with Walter Shorenstein (*which see*). Sons of Ben run Swig empire: Mel, 71, does deals; brother Richard, 63, heads hotels; brother-in-law Richard Diner, 67, retired. Philanthropic with education, Jewish causes; active Democrats; share fortune believed to exceed \$550 million.

Taylor

Publishing. Origin: Boston. Fading *Boston Globe* revived 1872 by General Charles H. Taylor. Paper's management dominated by succeeding three generations. William O., 56 (married, 3 children), great-grandson of the general, current chairman of umbrella company Affiliated Publications, Inc. Jordan trust (*see Jordan family*) held 10 million shares, ends 1996. To ensure control, Taylor set up Class B stock in May, via 2-for-1 split. New stock has 10 votes per share; limited transfer rights to keep voting stock in Taylor family. Profits mostly fed back to paper. Notable exception: \$82 million investment in McCaw Cellular Communications Cos. (*see McCaws*). Huge paper return in a few years: over \$1.3 billion, AP owns 47% equity in McCaw. Taylors maintain modest lifestyle largely out of public eye. Fortune estimated at least \$600 million.

Temple

Origin: Diboll, Tex. Descendants of Thomas Louis Latane Temple Sr., who founded (Temple Industries predecessor) Southern Pine Lumber Co. 1893 with 7,000 acres timber in East Texas. Son Arthur inherited 200,000 acres, \$2 million debt 1934; turned business around; merged with Time Inc. 1973, by then half-million-acre forest earning \$9.6 million a year, overseen by innovative grandson Arthur Jr., who developed "perpetual forest," selective harvesting. Arthur Jr., 68, Time vice chairman 1978-83, now chairman Temple-Inland; spun off

1984. Son Arthur III (Buddy), 47, served 4 terms in Texas house, ex-chairman Texas Railroad Commission, lost race for governor 1982. Now chairman Exeter Co., family real estate development co. Temple family stake in T-I, Time, etc., believed worth \$950 million.

Upjohn

Kalamazoo, Mich. Descendants of Drs. Henry and William Erastus Upjohn. W.E. invented, patented first dissolvable pill for accuracy of dosage. Brothers founded Upjohn Pill and Granule Co. 1886. Developed Phenolax, premier flavored laxative (mint) 1908. Co. grew: Kaopectate; pioneered oral digitalis tablet for heart patients; also first to mass-produce antibiotics during WWII; went public 1958. Upjohn's wonder-drug Rogaine, antibaldness treatment approved in Canada, Europe 1988, recently approved by FDA. Xanax, Halcion (central nervous system agents) big winners 1987. Also Asgrow Seed Co.; produces agronomic, vegetable seeds. Family believed to hold 20% of stock, other, worth \$1.4 billion.

Watson

Origin: Armonk, N.Y. Heirs of Thomas John Watson, "the world's greatest salesman." Born New York 1874; \$6-a-week bookkeeper, later sold sewing machines, caskets, pianos. After NCR gig, became head Computing-Tabulating-Recording Co. 1914; "professional manager," took salary, piece of profits over equity; gradually bought shares. Renamed co. International Business Machines 1924; conceived mottoes "THINK," "World Peace Through World Trade." Saw first commercial computer from Univac; took dominant place in new market, enjoyed some success as IBM. Sr. died 1956, left 4 kids (2 now deceased); Thomas Jr. ran co. until 1971. Led computer explosion: mainframes, circuit boards, silicon chips. IBM now world's most profitable co. (sales \$54.2 billion, earnings \$5.3 billion). Thomas Jr., 74, U.S. ambassador to U.S.S.R. No Watson still with IBM, but family believed to hold stock worth over \$330 million.

Wattis

Origin: Ogden, Utah. Descendants of Edmund O. Wattis, who co-founded Utah Construction 1900 with Mormon banker David Eccles. Heavy construction company first built railroads, then bridge and Hoover, Grand Coulee dams; other government projects. Prolific Eccles family's shares dispersed; Wattises held theirs. Grandson Edmund Littlefield named chairman 1971, insisted on one condition: wouldn't hire founders' relatives. Steered Utah Intl. out of construction business. Diversified into coal, copper mining; early contracts with Japan. Family held 14% when UI sold out to General Electric 1976 in then-largest merger (\$2.2 billion). Littlefield, one surviving aunt (Phyllis Wattis) and 13 other relatives hold GE shares worth about \$900 million.

Weiler

NYC. Descendants of Jack Weiler, 84, who operated in NYC while partner Ben Swig (*see family*) handled Boston, then San Francisco. Brokered leases for retail chains 1940s, 1950s; bought commercial, residential properties. Swig, Weiler & Arnow now controls some 5 million sq. ft., mostly NYC, SF, some elsewhere. Swigs bought Weilers' interest in tony Fairmont Hotel chain (San Francisco, Dallas, etc.) for estimated \$180 million 1982; families still partners NYC, SF buildings. Some SF office buildings with Walter Shorenstein (*which see*). Jack, lavish contributor Jewish causes, spends much time with charity; son Alan, 54, co. attorney; son-in-law Robert Arnow, 64, also active. Weilers, less active than Swigs, share fortune estimated at least \$500 million. Jack: "If you take us off your list, it won't break our hearts."

Weyerhaeuser

St. Paul, Seattle et al. Frederick Weyerhaeuser (1834-1914) came from Germany, at 18 found work in Ill. sawmill. Later bought with friend from 1857 bankruptcy. Applied manifest destiny to logging,



For all of life's celebrations, in all of love's languages, only a diamond is forever.

Family Fortunes

cut swath from St. Paul to Pacific. Bought 900,000 acres at \$6/acre from RR magnate James Hill 1900; formed Weyerhaeuser Co. At one time had interests in some 200 Weyerhaeuser-related companies. Earlier cut-and-run methods outraged Teddy Roosevelt, but co. pioneered tree farming in 1940s, now considered "best of the s.o.b.s." "This is not for us or our children. It is for our grandchildren." Great-great-grandchildren not doing too badly either. Today nearly 250 descendants including great-grandson and CEO George share 10% Weyerhaeuser, 33% Potlatch, 15% Comshare, etc., etc., estimated worth over \$1 billion.

Whittier

Southern Calif. Descendants of Mericos H. Whittier, who cofounded Belridge Oil 1911 with 4 others; served as president until death in 1925. Son Leland president 1965 to 1979. Two families sold out to Texaco, Mobil 1930s; Whittier, Buck, Green families (see *Dolly Green*) sold to Shell for \$3.6 billion 1979. Largest takeover at time, their combined stake 56%. Mericos' 4 children, grandchildren received \$475 million after taxes. Family still holds interest in M.H. Whittier, small oil company. Helen Whittier Woodward (d. 1984) donated eye institute to Scripps Foundation, Asia

Complex to San Diego Zoo. Family extremely secretive "for safety's sake." Proceeds from Belridge sale believed now worth \$700 million.

Wirtz

Chicago. Descendants of Arthur Wirtz (King Arthur to friends), son of Chicago cop. Bought Chicago real estate 1920s, after U. Michigan; took advantage of Depression bargains, eschewed mortgages. With grain speculator Jim Norris (d. 1966) acquired string of sports teams, arenas, including Madison Square Garden. Empire overthrown in 1957 antitrust suit. Norris' daughter sued family for damages in stock fraud case, but statute of limitations ran out. Arthur died 1983; oldest son William oversees family's liquor distributorship (among the largest in Illinois, Minnesota), real estate, banking, hotel interests in Chicago. Family interests in Chicago (hockey) Black Hawks, (basketball) Bulls. City seeking new sports complex at old Chicago Stadium owned by family. Two sons, 2 daughters share fortune estimated at least \$500 million.

Wolfe

Columbus, Ohio et al. Descendants of brothers Robert F. and Harry P., creators of 19th-century fortune

hinged on Wear-U-Well shoes. Diversified into media: bought *Columbus Dispatch* 1905; later added broadcast interests. Empire now includes *Dispatch*, 2 tv, 2 radio stations, *Ohio* magazine, banking and real estate interests. Extremely influential Republican force in Ohio; founder's grandson John W., 60, "stands alone as the top banana in town." John W. and cousin John F. head 14-member family, control 2.5% National City Corp., have 10% stake in Ohio Co. (investment bank). Family assets worth at least \$550 million.

Yates

Artesia, N.M. Patriarch Martin Yates Jr. drilled first commercial well on New Mexico side of Permian Basin 1921; family lore says he dug dry holes until wife picked spot that yielded gusher. Built pipeline, refinery 1920s, sold refinery in Depression. Martin's 4 sons: Harvey, Saint Clair Peyton (S.P.), Martin III, John built Yates Petroleum; disastrous foray into mining forced Harvey to cash out to brothers 1963; rebuilt own oil fortune. Grandson Harvey Jr. on way up with Cibola Energy Corp., but Yates Petroleum still predominates in N.M. Third generation active in company. S.P., John and Martin's widow share Yates Petroleum, plus other small interests, worth \$380 million.

Acknowledgments

Agnes Ash, publisher, *Palm Beach Daily News*
George Beezer, editor, Lehigh University Alumni Bulletin
Larry Birger, Business Monday editor, *Miami Herald*
Blackburn & Company, media brokers, Washington, D.C.
R.W. Bryam & Co., oil publications, Austin, Tex.
Brian Burton, editor, *Indiana Business*, Indianapolis
Lee E. Dirks, media consultant, Lee E. Dirks & Assoc., Birmingham, Mich.
Cori Dunn, managing editor, *Home Center Magazine*, Prairie View, Ill.
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Sy Eskenazi, Manager, Real Estate Data, Inc., NYC
Fred Fogarty, retired columnist, *South Florida Business Journal*, Miami
Mary Friedberg, editor, *Cincinnati Business Courier*
Sylvia Frisch, *Star Tribune*, Minneapolis
Marc Ganis, president, Sportscorp., Chicago
Louis Graham, *The Commercial Appeal*, Memphis, Tenn.
Jane Glenn Haas, staff writer, *Orange County Register*, Santa Ana, Calif.
Nancy Hardy, editor, *Florida Times-News*, Fort Lauderdale
Bob Hastings, president, Hastings, Conroy, Braig & Assoc., Honolulu
Charles H. Kadlec, president, Frazier Gross & Kadlec Inc., communications consultants, Washington, D.C.
Leroy Keller, media consultant, NYC
Hugh Kelley, Landauer Associates Inc., NYC
James B. Kobak, publishing consultant, James B. Kobak & Co., Darien, Conn.
Judy Leek, Erikson Realty, Laughlin, Nev.
John Linchard, Coldwell Banker, Washington, D.C.
Perrin H. Long Jr., Lipper Analytical Securities Corp., NYC
Carlen Maddux, *The Wall Street Journal*, St. Petersburg, Fla.
Paul Massey, sales consultant, Coldwell Banker, NYC
Steven J. Matt, manager, appraisal and valuation group, Arthur Andersen & Co., Dallas

Daniel McNamee, media consultant, McNamee Consulting Co., NYC.
Russell Miller, author, *The House of Getty*
M.R. Montgomery, author, *In Search of L.L. Bean*
National Mall Monitor magazine, Clearwater, Fla.
Robert W. Pohle, Pohle Partners Inc., Excelsior, Minn.
Jay Pouzar, agent, Coldwell Banker, Chicago.
Professional Builder magazine, Des Plaines, Ill.
Gerald D. Reilly, newspaper broker and media consultant, Greenwich, Conn.
Henry Robbins, Yale-Robbins, Inc., Manhattan Office Buildings, NYC.
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Jeremy Shamos, media consultant and attorney, Denver.
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Shopping Center World magazine, Atlanta.
Donald Sorenson, business writer, *The Oregonian*, Portland, Ore.
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Seabury Stoneburner, vice chairman and CFO, Koger Co.
Ron Stuart, editor, *Tampa Bay Business Journal*, Tampa, Fla.
Leonard Teitlebaum, first vice president, Merrill Lynch, NYC.
Bruce Thorp, media analyst, Provident National Bank, Philadelphia.
Johann Voelker, realtor associate, Coldwell Banker, Washington, D.C.
Frank Walters, editor, *Impact*, NYC
Jim Warren, press secretary to Texas Secretary of State Jack Rains, Austin, Tex.
The Washingtonian, Washington, D.C.
Roy Weisman, media broker, Henry Ansbacher & Co., NYC.

Newspaper libraries
The Cincinnati Post, *Dayton Daily News*, *Denver Post*, *Indianapolis Star*, *Naples Daily News*, *New Orleans Times-Picayune*, *Orlando Sentinel*, *Seattle Times*, *Tampa Tribune*, *Youngstown (Ohio) Vindicator*

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MILES AHEAD

Dropouts

The crash of 1987 hurt members of *The Forbes Four Hundred*, but not as much as one might think. Of last year's roster, 22 fell off because their stock declined, 4 died and 26 were passed by stronger fortunes or removed for other reasons.

Who left the list?



DIED

Bernhard, Arnold. Westport, Conn. Estimated \$390 million fortune (Value Line, Inc.) 1987. Died Dec. 22, 1987. Survived by wife, 2 children (see *Jean Bernhard Buttner*).

du Pont, Pierre Samuel III. Rockland, Del. Estimated \$300 million fortune (Du Pont inheritance) 1987. Died Apr. 9, 1988 at age 77. Survived by 3 children. (See siblings *Willis du Pont*, *Edith du Pont Pearson*, other *du Ponts*, below; see also *du Pont family*.)

Goldman, Sol. NYC. Estimated \$1.1 billion fortune (real estate) 1987. Died Oct. 18, 1987 at age 70. Survived by wife *Lillian* (which see), 4 children (see *Sol Goldman family*), his mother, 2 brothers and 1 sister.

von Platen, Ruth Chandler. San Marino, Calif. Estimated \$300 million inheritance (Times Mirror Co.) 1987.

Died Dec. 10, 1987 at age 90. Survived by husband, 3 children (see *Chandler family*).

DECLINED

Andreas, Dwayne Orville. Bal Harbour, Fla. 70. Estimated \$230 million stock holdings (Archer-Daniels-Midland Co.) in 1987, but Soybean King's stock took a beating in last year's Wall Street crash. Visible net worth below minimum this year.

Bainum, Stewart Sr. Silver Spring, Md. 69. Estimated \$250 million fortune (Manor Care) 1987. Health care stock at \$18 in 1987 sank below \$12 in 1988, dragging net worth below minimum.

Berrie, Russell. Englewood, N.J. 55. Estimated \$420 million net worth (Russ Berrie & Co.) 1987. Stock slid 10% in stock market shakeup, under minimum.

Colket, Tristram C. Jr. Paoli, Pa. 50. Estimated \$240 million fortune (Campbell Soup) 1987. Personal Campbell stock holdings down; visible net worth below minimum for now (see *uncle John Dorrance Jr.*, *cousins Dorrance Hill Hamilton*, *Hope Hill van Beuren*).

Furst, Austin Owen Jr. New Canaan, Conn. 45. Estimated \$230 million fortune (Vestron) 1987. Even switch to movie production and runaway success of *Dirty Dancing* couldn't hold up the stock of this videocassette distributor confronting a Hollywood that now distributes its own videos.

Littlefield, Edmund Wattis. Burlingame, Calif. 74. Estimated \$245 million fortune (GE stock, real estate) 1987. Stock giveaways coupled with weak market put fortune below minimum (see *Wattis family*).

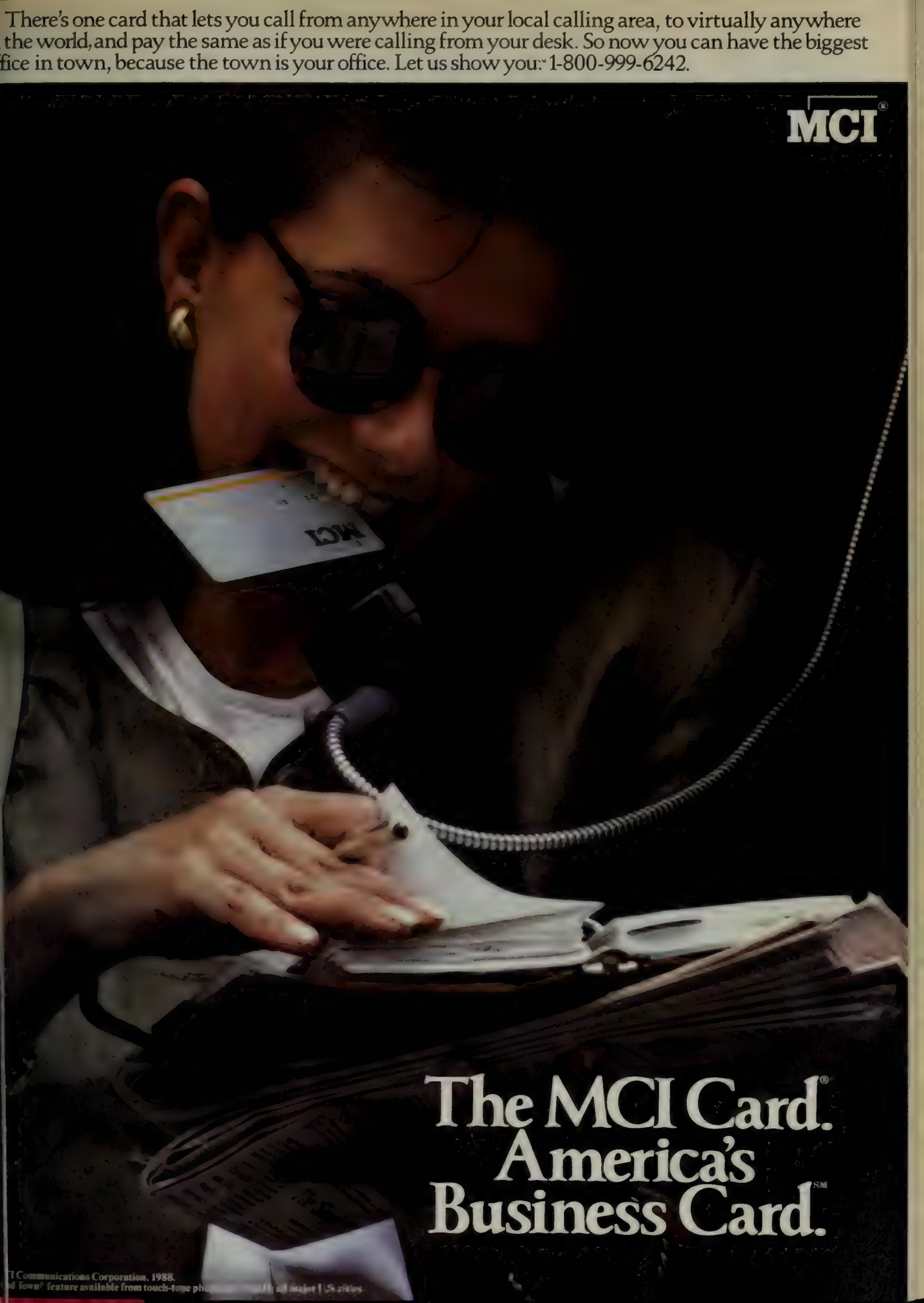
Mandel, Jack N. Shaker Heights, Ohio. 76. Estimated \$240 million fortune (Premier Industrial Corp.) 1987. Stock decline puts fortune below Forbes Four Hundred minimum. (See *brothers Joseph and Morton*, below; see also *Mandel family*.)

Mandel, Joseph C. Lyndhurst, Ohio. 74. Estimated \$240 million fortune (Premier Industrial Corp.) 1987. (See *brothers Jack*, above, *Morton*, below; see also *Mandel family*.)

Mandel, Morton Leon. Shaker Heights, Ohio. 67. Estimated \$240 million fortune (Premier Industrial Corp.) 1987. (See *brothers Jack and Joseph*, above; see also *Mandel family*.)

Milliken, Minot King. NYC. 72. Estimated \$325 million fortune (textiles,

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investments) 1987. Decline in Mercantile Stores Co. stock, downward revaluation of Milliken & Co. put estimated fortune below minimum (*see cousins Roger, Gerrish Milliken*).

Milstein, Monroe Gary. Burlington, N.J. 61. Estimated \$250 million fortune (Burlington Coat Factory Warehouse) 1987. Stock fortune crashed with the market on Black Monday. Net worth now far below Forbes Four Hundred minimum.

Nielsen, Arthur Charles Jr. Winnetka, Ill. 69. Estimated \$315 million fortune (Dun & Bradstreet) 1987. D&B stock recovered somewhat from market crash but still down over 20%. Fortune below minimum in 1988.

Ottaway, James Haller Sr. Campbell Hall, N.Y. 77. Estimated \$255 million fortune (Dow Jones) 1987. Declined with market crash, stock sales. Below minimum for now.

Paxson, Lowell W. Clearwater, Fla. 53. Estimated \$385 million fortune (Home Shopping Network) 1987. HSN stock recently \$3.50 a share (versus \$15.50 in 1987). Easy come, easy go (*see also Roy Speer, below*).

Pontikes, Kenneth Nicholas. Barrington, Ill. 48. Estimated \$295 million fortune (Comdisco) 1987. Stock in his \$1.1 billion (1987 sales) computer leasing firm down nearly 40% from 1987.

Price, Sol. La Jolla, Calif. 72. Estimated \$325 million fortune (Price Co.) 1987. Retailing woes in 1988 knock off another one. Fortune below minimum for this year.

Smith, Frederick Wallace. Memphis. 44. Estimated \$295 million fortune (Federal Express Corp.) 1987. Fax machine frenzy, competition from UPS took bite out of stock price. Fortune below this year's minimum.

Speer, Roy Merrill. Clearwater, Fla. 56. Estimated \$600 million fortune (Home Shopping Network) 1987. Sagging earnings, a lawsuit, short-sellers hammered this "fad" stock down 77% from 1987 (*see also Lowell Paxson, above*).

Spiegel, Abraham. Beverly Hills. 82. Estimated \$300 million fortune (Columbia Savings & Loan) 1987. Stock decline coupled with reappraisal of holdings put him below minimum.

Syms, Sy. Lyndhurst, N.J. 62. Esti-

ated \$240 million fortune (Syms Corp.) 1987. Stock decline puts him below minimum this year.

Weber, Charlotte Colket. Ocala, Fla. and NYC. 45. Estimated \$240 million inheritance (Campbell Soup) 1987. Campbell stock down somewhat, visible net worth below minimum for this high-profile giver.

Wexner, Bella. Columbus, Ohio. Late 70s. Estimated \$365 million stock fortune (The Limited, Inc.) 1987. Stock decline in sluggish fashion industry puts fortune far below minimum this year.

LEFT BEHIND

Cantor, Bernard Gerald. Beverly Hills and NYC. 71. Estimated \$225 million fortune (securities brokerage) 1987. Weaker market values for brokerage houses after the crash make net worth estimate more uncertain.

Fleischer, Ernest Melvin. Kansas City, Mo. 55. Estimated \$320 million fortune (Franklin Savings Assoc.) 1987. Owns smaller percentage of Franklin than previously estimated. Fortune now believed less than \$225 million.

Haft, Herbert Herman. Washington, D.C. 68. Estimated \$225 million fortune (retailing, real estate) 1987. Black Monday plunge in Dart Group stock puts fortune below this year's minimum for individuals. (*See Robert Haft, below; also Haft family.*)

Haft, Robert Michael. Washington, D.C. 35. Estimated \$225 million fortune (retailing, real estate) 1987. (*See Herbert Haft, above; Haft family.*)

Lusk, John David. Newport Beach, Calif. 80. Estimated \$225 million fortune (real estate) 1987 surpassed by stronger fortunes.

Spielberg, Steven Allen. Beverly Hills. 40. Estimated \$225 million fortune (motion pictures) 1987. In spite of terrific year at box offices and video stores, uncertainty over movie earnings (and plenty of stronger fortunes) turned a 1987 debut into a 1988 close encounter.

Weinberg, John Livingston. NYC. 63. Estimated \$225 million fortune (Goldman, Sachs & Co.) 1987. Post-crash Wall Street woes mean that even the cream of the investment banking crop might not be worth what it once was.

REALIGNED

Bancroft, Christopher. Denton, Tex. 37. Estimated \$225 million fortune (Dow Jones inheritance) 1987. Stock decline puts visible fortune below Forbes Four Hundred minimum. (*See siblings Hugh Bancroft III, Kathryn Bancroft Kavadas and Bettina Klink, below; see also Bancroft family.*)

Bancroft, Hugh III. Newport Beach, Calif. 39. Estimated \$225 million fortune (Dow Jones inheritance) 1987. (*See siblings Christopher Bancroft, above, Kathryn Bancroft Kavadas and Bettina Klink, below; see also Bancroft family.*)

Bredin, Octavia Mary du Pont. Greenville, Del. 75. Estimated \$240 million fortune (Du Pont inheritance) 1987. Estimate less certain postcrash; widely dispersed fortune among multiple du Pont heirs now covered in family group. (*See siblings Constance du Pont Darden, Irénée du Pont Jr., Lucile du Pont Flint, Margaretta du Pont Greenewalt, Irene du Pont May, Eleanor du Pont Rust, Mariana du Pont Silliman, below; see also Pierre Samuel du Pont II family.*)

Darden, Constance Simons du Pont. Norfolk, Va. 84. Estimated \$240 million fortune (Du Pont inheritance) 1987. (*See Octavia du Pont Bredin, above, other du Ponts, below; see also du Pont family.*)

du Pont, Irénée Jr. Montchanin, Del. 68. Estimated \$240 million fortune (Du Pont inheritance) 1987. (*See Octavia du Pont Bredin, above, other du Ponts above and below; see also du Pont family.*)

du Pont, Willis Harrington. Palm Beach, Fla. 52. Estimated \$300 million fortune (Du Pont inheritance) 1987; estimate less certain postcrash. Widely dispersed fortune among multiple du Pont heirs merits regrouping into family section. (*See siblings Pierre du Pont III, above, Edith du Pont Pearson, below, other du Ponts; see also du Pont family.*)

Flint, Lucile Evelina du Pont. Greenville, Del. 73. Estimated \$240 million fortune (Du Pont inheritance) 1987. (*See Octavia du Pont Bredin, above, other du Ponts, above and below; see also du Pont family.*)

Greenewalt, Margaretta Lammot du Pont. Greenville, Del. 86. Estimated \$240 million fortune (Du Pont inheritance) 1987. (*See Octavia du Pont Bredin, above, other du Ponts, above and*

below; see also du Pont family.)

Hearst, Hope Chandler. Beverly Hills. 67. Estimated \$500 million fortune (Hearst Corp.) 1987. Husband David's (d. 1986) share of Hearst fortune controlled by their children. (See *David Hearst and Millicent Baoudjakdji.*)

Kavadas, Kathryn Bancroft. Waban, Mass. 36. Estimated \$225 million fortune (Dow Jones inheritance) 1987. (See siblings *Christopher Bancroft, Hugh Bancroft III, above, Bettina Klink, below; see also Bancroft family.*)

Klink, Bettina. Los Angeles. 47. Estimated \$225 million fortune (Dow Jones inheritance) 1987. (See siblings *Christopher Bancroft, Hugh Bancroft III, Kathryn Bancroft Kavadas above; see also Bancroft family.*)

May, Irene Sophie du Pont. Wilmington, Del. 87. Estimated \$240 million fortune (Du Pont inheritance) 1987.

(See *Octavia du Pont Bredin, above, other du Ponts, above and below; see also du Pont family.*)

Pearson, Edith du Pont. Montchanin, Del. 76. Estimated \$300 million fortune (Du Pont inheritance) 1987. (See siblings *Pierre du Pont III, Willis Du Pont, above, other du Ponts; see also du Pont family.*)

Rust, Eleanor Francis du Pont. Thomasville, Ga. 81. Estimated \$240 million fortune (Du Pont inheritance) 1987. (See *Octavia du Pont Bredin, above, other du Ponts, above and below; see also du Pont family.*)

Silliman, Mariana du Pont. Montchanin, Del. 77. Estimated \$240 million fortune (Du Pont inheritance) 1987. (See *Octavia du Pont Bredin, other du Ponts, above; see also du Pont family.*)

REMOVED

Alkek, Albert. Victoria, Tex. 77. Estimated \$310 million fortune (oil, stocks) 1987. Continued oil industry weakness and unclear stock holdings at this point make net worth difficult to determine.

Koll, Donald Milton. Newport Beach, Calif. 55. Estimated \$300 million fortune (real estate) 1987. Uncertainty concerning equity and ownership of projects puts him off this year's list.

Rock, Arthur J. San Francisco. 62. Estimated \$225 million fortune (venture capital) 1987. Uncertainty resulting from secrecy surrounding his holdings encouraged removal in favor of better-substantiated fortunes.

Smith, Marian Uldine Day. Atlanta. 54. Estimated \$300 million inheritance (Days Inns) 1987. Fortune was overstated.

Near Misses

What happens if you're the 401st richest person in the U.S.? You save your money, work hard, and hope for better luck next year. Life is hard.

Class of '89?



Joseph Dahr Jamail

Law. Houston. 62. Married, 3 sons. Son of Lebanese immigrants; claims relation to Lebanese President Amin Gemayel. WWII Marines hitch, U. of Texas law school 1953, "King of torts" since: at least 75 settlements over \$1 million. Won \$10.5 billion (largest ever) damage award in historic Texaco-Pennzoil case 1985 ("labor of love" for longtime pal, Pennzoil chairman Hugh Liedtke). Partied with friend Willie Nelson night before trial summations: "Now that's how you get ready for a closing argument." Settled case for \$3 billion 1987. Joe's cut: over \$300 million. After full tax, should be worth at least \$220 million. "After personal injury law, this business litigation is a f----- cakewalk."

*For Bill Demby, the difference means
getting another shot.*



When Bill Demby was in Vietnam, he used to dream of coming home and playing a little basketball with the guys.

A dream that all but died when he lost both his legs to a Viet Cong rocket.

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is back. And some say, he hasn't lost a step.

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Donald Joseph Laughlin

Gambling. Laughlin, Nev. 57. Separated, 3 children. As Minnesota boy, took home \$400 a week renting slot machines to bars, restaurants. Quit school 9th grade at principal's ultimatum: school or gambling. "I was making more money than he was." With cop crackdown, moved to Las Vegas 1952; bought 101 Club casino. Sold 1966 to buy bankrupt bar, 8-room motel and bait shop for \$225,000 on Colo. River; now 760-room Riverside Resort & Casino (1988 gaming revenues, \$80 million). Bordertown Laughlin (pop. 3,000, near Ariz.) a "blue-collar gambling" mecca; riverfront land over \$1 million an acre. Casino, land, etc. worth at least \$220 million.

John Calvin Portman

Real estate. Atlanta. 63. Married, 6 children. Stint in Navy, then Ga. Tech. Built Atlanta trade show facility 1961, ignoring architects' no-developing creed: "I'm the Medici to my own Leonardo." Big splash with 23-story Atlanta Hyatt atrium 1967. Designed, built office/hotel projects worldwide taking small pieces of many pies: Peachtree Center (Atlanta), Embarcadero Center (SF), huge project in China. Bad reviews on Detroit's Renaissance Center: "World's most vexing pile of steel and concrete." Wrestled 12 years with \$375 million Marriott, NYC. "I didn't want to do schoolroom additions, I wanted to leave footprints in the sand." Footprints now total some \$220 million.

Ted Mann

Movie theaters. Los Angeles. 65. Divorced, remarried (to actress Rhonda Fleming); 2 daughters. Son of North Dakota homesteaders; raised in Minneapolis. Built Midwest movie theater chain; sold 1968, kept some real estate. To LA mid-1960s. Bought ailing 270-theater National General chain for \$67 million 1973, including venerable Grauman's Chinese Theatre—change to Mann's Chinese not well received. Rebuilt chain through trades, construction; sold with nearly 400 screens for \$245 million 1986. "He had the golden touch." Still manages theaters; produces movies, invests in production companies. Assuming capital gains tax, net worth believed at least \$215 million.

Avron B. Fogelman

Real estate. Memphis, Tenn. 48. Married, 3 sons. After Tulane, joined family real estate business; built first duplex apt. Memphis 1962 with brother Robert. Established Fogelman Props. 1978, now 18,000 upscale units Memphis, Atlanta, Nashville, etc.; heavy building 1980s with cheap money: "It was my decision to hit it a good lick." Co-owns Kansas City Royals (1985 Series winners) with Marion Labs founder Ewing Kauffman (*which see*): pioneered lifetime contracts giving players real estate equity: "The buildings will pay for the players." Avron believed worth around \$200 million. Kauffman: "All I know is if I call him for \$2 million, I get it in 24 hours."

Alan Gerry

Cable tv. Liberty, N.Y. 59. Married, 3 children. Joined Marine Corps at 17; then to electronics school, early student of tv 1949. Started putting up tv towers in rural N.Y. State, first cable system in hometown Liberty 1957: "just trying to get a good picture on the three networks." Bought radio stations (later sold); had 80,000 cable subscribers 1981, after acquisition binge Cablevision Industries now has almost 900,000 subs (15th-largest U.S. operator). Recently cut tax-free stock swap with Robert Bass (*which see*) for Wometco's cable. Though debt is considerable, his 95% should be worth over \$200 million. "I figure I've got another 20 years before I start to get tired."

Richard Paul Simmons

Steel. Sewickley, Pa. 57. Married, 2 children. Father ran small Bridgeport, Conn. gas station; Dick studied metallurgy at Massachusetts Institute of Technology. Joined steelmaker Allegheny Ludlum 1953; left for competitor but returned 1968, steel division pres. 1972. Led \$195 million LBO of Allegheny Ludlum's specialty steel unit 1980. Survived steel industry doldrums even with 21% interest payments. Took Allegheny Ludlum public 1987, market cap now \$650 million. Dick: "Who in their right mind could have anticipated that?" Fanatic for cost controls, information systems; survived perforated ulcer 1968: "Now I try to give 'em instead of get 'em." Stock, other assets, worth \$200 million. "It's sort of the old American dream."

Glenn Robert Jones

Cable tv. Denver. 58. Divorced, 3 children. Disarmed bombs for Navy; after University of Colorado law degree represented growing cable firms. Lost bid for Congress 1964. Borrowed \$400 against Volkswagen to buy first system 1966. Strung cable himself: "I went from lawyering to working in the bucket of a bucket truck." Used tax benefits of limited partnerships to grow: "It was more appropriate for cable than oil and gas, you didn't have dry holes." Through public Jones Intercable, Jones Spacelink, now 13th-largest (1.07 million subscribers) U.S. cable operator. Big fees from his private firm that brokers systems, partnerships. Writes capitalism-inspired poetry. Worth at least \$200 million.

Ralph Milton Lewis

Real estate. Upland, Calif. 68. Married, 4 sons. UCLA-educated CPA, started building homes Upland, Calif. 1955 (area 40 miles east of LA now called "Inland Empire"). Expanded to Las Vegas 1961, then to San Bernardino County. Lewis Homes now a \$400-million-a-year (sales) homebuilding machine; over 3,000 units built per year. Ralph buys land, sits on it: "If someone is going to speculate on our property it will be us." Goldy, Ralph's wife of 47 years, partner in home design; sons—Richard, Robert, Roger, Randall—each run divisions. Ralph: "Whatever we do, we do together." Mild stroke 1986; kids taking over, much in their names. Total worth some \$200 million.

Igor Olenicoff

Real estate. Laguna Beach, Calif. 44. Married, 2 children. Descendant of Russian merchant family; fled Soviet Union for Iran 1943, to U.S. 1958. Through govt. program earned B.A., M.S. and M.B.A. from USC. Job at accounting firm led to one at Motown Records. Began buying small residential properties, cheap Orange County land (not so cheap anymore). Built nearly 4 million sq. ft. of unglamorous mid-rise, mixed-use office space, also 3,000 apts. Notoriously litigious: "I'll deal with him, but I wouldn't want to pour concrete for him." Built up equity quickly with cash-cow bldgs., refinanced much with \$200 million GE credit loan 1987. Net worth may be \$200 million.

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	Page	Residence	Age	Worth (\$mil)	Primary sources
A					
Albertson, Joseph Albert.....	228	Boise	82	370	Albertson's, Inc.
Alexander, Norman E.	266	Scarsdale, N.Y.	74	250	Sequa Corp.
Alkek, Albert B.●.....	326	Victoria, Tex.	77	—	Oil
Allbritton, Joe Lewis.....	194	Houston	63	590	Broadcasting
Allen, Charles Jr.	236	NYC	85	340	Stock market
Allen, Herbert.....	236	NYC	80	340	Stock market
Allen, Herbert Anthony.....	236	NYC	47	340	Stock market
Allen, Paul Gardner.....	201	Bellevue, Wash.	35	540	Microsoft
Andersen family.....	286	Bayport, Minn.	—	500	Windows
Anderson, John Edward★.....	253	Bel Air, Calif.	71	300	Beverage distribution
Anderson, Robert Orville.....	268	Roswell, N.M.	71	240	Oil
Andreas, Dwayne Orville●.....	322	Bal Harbour, Fla.	70	—	Soybeans
Annenberg family.....	286	NYC	—	675	Publishing
Annenberg, Walter Hubert.....	164	Wynnewood, Pa.	80	1,200	Publishing
Anschutz, Philip Frederick.....	167	Denver	48	1,100	Oil
Ansin, Edmund Newton.....	260	North Miami, Fla.	52	265	Broadcasting
Anthony, Barbara Cox.....	154	Honolulu	65	2,250	Inheritance (Cox Enterprises)
Argyros, George Leon★.....	267	Newport Beach, Calif.	51	250	Real estate
Arison, Ted.....	158	Miami Beach	64	1,600	Carnival Cruise Lines
Arrillaga, John.....	267	Palo Alto, Calif.	50	250	Real estate
Autry, Orvon Gene☆.....	272	Los Angeles	81	230	Broadcasting
Avery, Alice O'Neill.....	259	Los Angeles	71	275	Inheritance (real estate)
B					
Bacardi family.....	286	Puerto Rico, et al.	—	1,000	Liquor
Bainum, Stewart Sr.●.....	322	Silver Spring, Md.	69	—	Manor Care, Inc.
Bancroft, Christopher●.....	324	Denton, Tex.	37	—	Inheritance (Dow Jones)
Bancroft family.....	286	Scattered	—	570	Inheritance (Dow Jones)
Bancroft, Hugh III●.....	324	Newport Beach, Calif.	39	—	Inheritance (Dow Jones)
Baoudjakdji, Millicent V.★.....	181	Los Angeles	49	375	Inheritance (Hearst Corp.)
Barbey family.....	286	Calif., et al.	—	340	Inheritance (VF Corp.)
Bass, Edward Perry.....	184	Fort Worth	43	750	Oil
Bass, Lee Marshall.....	172	Fort Worth	32	1,000	Oil
Bass, Robert Muse.....	158	Fort Worth	40	1,600	Oil
Bass, Sid Richardson.....	172	Fort Worth	45	1,000	Oil
Batten, Frank.....	196	Virginia Beach	61	550	Media
Bean family.....	286	Freeport, Me.	—	400	L.L. Bean
Bechtel, Stephen Davison Jr.	222	San Francisco	63	390	Engineering
Bechtel, Stephen Davison Sr.	222	Oakland, Calif.	88	390	Engineering
Belfer, Arthur Bejer.....	248	NYC	81	300	Oil
Belk family.....	286	Charlotte, N.C.	—	300	Retailing
Belz family.....	288	Memphis	—	400	Real estate
Bennett, William Gordon.....	260	Las Vegas	63	270	Circus Circus Enterprises
Berkley, William Robert★.....	245	Greenwich, Conn.	42	300	Food processing
Bernhard, Arnold●.....	322	Westport, Conn.	dec.	—	Value Line, Inc.
Bernie, Russell●.....	322	Englewood, N.J.	55	—	Teddy bears
Berry, Jack Monteith.....	245	Winter Haven, Fla.	71	315	Citrus
Berry, John William Sr.	229	Dayton	66	360	Yellow Pages
Binger, Virginia McKnight.....	271	NYC	72	230	Inheritance (3M)
Bingham family.....	288	Louisville	—	400	Publishing
Blaustein, Morton K.....	212	Baltimore	61	440	Inheritance (oil)
Block, William☆.....	271	Pittsburgh	73	230	Media
Block family●.....	—	Toledo; Pittsburgh	—	—	Newspapers
Bluhm, Neil Gary.....	218	Winnetka, Ill.	50	400	Real estate
Borg, Malcolm Austin.....	220	Englewood, N.J.	50	400	Publishing
Bredin, Octavia Mary de P.....	324	Greenville, Del.	75	—	Inheritance (Du Pont)
Bren, Donald Leroy.....	155	Newport Beach, Calif.	56	1,850	Real estate
Bright, Harvey Roberts.....	220	Dallas	68	400	Oil
Bronfman, Edgar Miles.....	162	NYC	59	1,300	Seagram Co.
Brown family.....	288	Louisville	—	615	Whiskey
Brown, Harold.....	207	Boston	63	500	Real estate
Brown, Jack Eugene.....	222	Midland, Tex.	63	390	Oil
Buffett, Warren Edward.....	154	Omaha	58	2,200	Stock market
Bullitt family.....	28	Seattle	—	480	Broadcasting
Busch, August Anheuser Jr.....	67	St. Louis	89	1,100	Anheuser-Busch
Butt, Charles C.★.....	84	San Antonio, Tex.	50	260	Grocery stores
Buttner, Jean Bernhard★.....	165	NYC	53	350	Inheritance (Value Line, Inc.)

★New entry. ☆Returnee. ●Dropout



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resources and underlying capital strength of Morgan's global network – the same resources that benefit the world's largest companies.

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	Page	Residence	Age	Worth (\$mil)	Primary sources
C					
Cabot family.....	288	Boston area	-	390	Cabot Corp.
Campbell family.....	288	Hawaii, et al.	-	650	Real estate
Cantor, Bernard Gerald●.....	324	Beverly Hills, Calif.	71	-	Financier
Cargill family.....	288	Minneapolis origin	-	2,000	Inheritance (Cargill, Inc.)
Cargill, James R.....	232	Minneapolis	65	350	Inheritance (Cargill, Inc.)
Cargill, Margaret.....	232	La Jolla, Calif.	68	350	Inheritance (Cargill, Inc.)
Carlson, Curtis Leroy.....	186	Minneapolis	74	650	Entrepreneur
Carpenter, Robert Ruliph Jr.....	270	Montchanin, Del.	73	240	Inheritance (Du Pont)
Carr, Oliver Taylor Jr.....	270	Washington, D.C.	63	240	Real estate
Caruth, William Walter Jr.....	204	Dallas	76	500	Real estate
Carver family●.....	-	Muscataine, Iowa	-	-	Rubber
Chambers, Anne Cox.....	154	Atlanta	68	2,250	Inheritance (Cox Enterprises)
Chandler family.....	289	Los Angeles, et al.	-	1,500	Times Mirror Co.
Chase, David Theodore.....	248	West Hartford, Conn.	59	300	Real estate
Clapp, Norton.....	210	Seattle	82	465	Inheritance (Weyerhaeuser)
Clark, Alfred James☆.....	264	Easton, Md.	60	260	Construction
Close family.....	289	Fort Mill, S.D.	-	380	Textiles
Cohen family.....	289	NYC area	-	450	Real estate
Cohn, Seymour.....	214	NYC	77	450	Real estate
Coker family.....	290	Hartsville, S.C.	-	455	Shopping bags
Colket, Tristram C. Jr.●.....	322	Paoli, Pa.	50	-	Inheritance (Campbell Soup)
Collier family.....	290	Naples, Fla.	-	550	Real estate
Collier, Miles Carnes.....	214	Naples, Fla.	41	450	Inheritance
Comer, Gary Campbell.....	235	Chicago	60	350	Lands' End
Connell, Grover.....	232	Westfield, N.J.	70	350	Food
Conover, Catherine Mellon.....	272	Washington, D.C.	52	225	Inheritance
Cook, Jane Bancroft.....	194	Cohasset, Mass.	76	590	Inheritance (Dow Jones)
Cook, William Alfred★.....	235	Bloomington, Ind.	57	350	Catheters
Cooke, Jack Kent.....	179	Middleburg, Va.	75	950	Media
Cooke, Phoebe Hearst.....	181	San Francisco	61	375	Inheritance
Coors family.....	290	Golden, Colo.	-	450	Beer
Copley, Helen Kinney.....	184	La Jolla, Calif.	65	750	Publishing
Cotsen, Lloyd Edward.....	259	Bel Air, Calif.	59	280	Neutrogena Corp.
Coulter, Wallace Henry★.....	204	Hialeah, Fla.	71	500	Blood
Cowles family (Gardner).....	290	Des Moines, et al.	-	800	Newspapers
Cowles family (William).....	290	Spokane, Wash.	-	400	Newspapers
Cox, Edwin Lochridge Sr.☆.....	235	Dallas	66	350	Oil
Cox, John Lee.....	256	Midland, Tex.	63	300	Oil
Cox, William Coburn Jr.....	258	London	57	290	Inheritance (Dow Jones)
Crain, Gertrude Ramsay.....	253	Chicago	77	300	Publishing
Crow, Fred Trammell.....	181	Dallas	74	775	Real estate
Crown, Lester.....	154	Wilmette, Ill.	63	2,300	Inheritance
Cullen family.....	290	Houston	-	1,300	Oil
Culverhouse, Hugh Franklin.....	240	Tampa, Fla.	69	330	Real estate
Currier family●.....	-	The Plains, Va.; NYC	-	-	Inheritance
D					
Danner, Raymond L.....	245	Nashville	63	310	Shoney's
Darden, Constance Simons du Pont●.....	324	Norfolk, Va.	84	-	Inheritance (Du Pont)
Davenport, Elizabeth Lupton.....	208	Lookout Mountain, Tenn.	55	285	Coca-Cola bottling
Davidowitz, Joseph Morton.....	260	Lawrence, N.Y.	59	275	Stock market
Davidson, William Morse.....	207	Bloomfield Hills, Mich.	65	500	Guardian Industries Corp.
Davis family.....	292	Jacksonville, Fla., et al.	-	515	Winn-Dixie Stores
Davis, Marvin Harold.....	158	Beverly Hills, Calif.	63	1,600	Oil
Davis, Shelby Cullom.....	228	Tarrytown, N.Y.	79	370	Investment banking
Dayton family.....	292	Minneapolis	-	780	Dayton-Hudson
DeBartolo, Edward John.....	160	Youngstown, Ohio	70	1,400	Shopping centers
Dedman, Robert Henry.....	194	Dallas	62	600	Country clubs
de Menil family.....	292	Houston	-	400	Inheritance
de Young family.....	292	San Francisco, et al.	-	660	Newspapers
Dikeou family.....	292	Denver; Orlando, Fla.	-	375	Real estate
DiLorenzo family.....	292	NYC	-	500	Real estate
Disney family.....	292	Los Angeles area	-	440	Walt Disney Co.
Disney, Roy Edward.....	207	Los Angeles	58	500	Walt Disney Co.
Dittmer, Thomas Henry.....	253	Lake Forest, Ill.	46	300	Commodities



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	Page	Residence	Age	Worth (\$mil)	Primary sources
Donnell, Eugene Jr.	213	Lafayette Hill, Pa.	65	450	Inheritance
Donnell, Suzanne Searle	266	Lake Forest, Ill.	57	250	Inheritance (G.D. Searle)
Dolan, Charles Francis	196	Oyster Bay, N.Y.	62	550	Cable television
Donnelley family	292	Chicago origin	-	900	R.R. Donnelley & Sons
Dorrance, John Thompson Jr.	164	Gladwyne, Pa.	69	1,200	Inheritance (Campbell Soup)
Draper, Irene Carpenter	270	Montchanin, Del.	77	240	Inheritance (Du Pont)
Dreiseszun, Sherman W.	254	Kansas City, Mo.	64	300	Banks
du Pont family (Pierre Samuel II)	294	Wilmington, Del., et al.	-	6,800	Inheritance (Du Pont)
du Pont family (William)	294	Wilmington, Del., at al.	-	800	Inheritance (Du Pont)
du Pont, Alexis Felix Jr.	260	Wilmington, Del.	82	260	Inheritance (Du Pont)
du Pont, Helena Allaire Crozer	260	Chesapeake City, Md.	75	260	Inheritance (Du Pont)
du Pont, Irénée Jr.●	324	Montchanin, Del.	68	-	Inheritance (Du Pont)
du Pont, Pierre Samuel III●	322	Rockland, Del.	dec.	-	Inheritance (Du Pont)
du Pont, Willis Harrington●	324	Palm Beach, Fla.	52	-	Inheritance (Du Pont)
Duchossois, Richard Louis	244	Barrington Hills, Ill.	67	325	Manufacturing
Duda family	294	Oviedo, Fla.	-	600	Agriculture
Duke, Doris	180	Somerville, N.J.	75	800	Inheritance
Durst, David M.	236	Chappaqua, N.Y.	63	350	Real estate
Durst, Royal H.	236	Westchester County, N.Y.	69	350	Real estate
Durst, Seymour B.	236	NYC	75	350	Real estate
Dyson, Charles Henry	193	NYC	79	600	Conglomerator
E					
Edson, John Orin	216	Seattle	55	440	Boats
Ellis, Alpheus Lee	258	Tarpon Springs, Fla.	82	290	Banking
Ellison, Lawrence J.	243	Atherton, Calif.	44	330	Oracle Corp.
Engelhard, Jane B.	232	Far Hills, N.J.	70	350	Inheritance
Evans, James Emmett	218	Dade City, Fla.	88	400	Citrus
Evans, Thomas Mellon	240	NYC	78	330	Investments
F					
Feeney, Charles F.★	164	London	57	1,300	Duty-free shops
Fickling, William Arthur Jr.	236	Macon, Ga.	56	340	Charter Medical Corp.
Field, Frederick Woodruff	210	Beverly Hills, Calif.	36	470	Inheritance (media)
Field, Marshall V.	210	Lake Forest, Ill.	47	425	Inheritance
Fireman, Paul	244	Newton, Mass.	44	320	Reebok International Ltd.
Fisher family●	-	Seattle, et al.	-	-	Lumber
Fisher, Donald George	259	San Francisco	60	280	The Gap
Fisher, Lawrence	218	NYC	78	400	Real estate
Fisher, Max Martin	235	Detroit	80	340	Oil
Fisher, Zachary	218	NYC	77	400	Real estate
Flatley, Thomas John★	193	Milton, Mass.	57	600	Real estate
Fleischer, Ernest Melvin●	324	Kansas City, Mo.	55	-	Franklin Savings Association
Flint, Lucile Evelina du Pont●	324	Greenville, Del.	73	-	Inheritance (Du Pont)
Fogelman, Avron B.†	328	Memphis	48	200	Real estate, baseball
Forbes, Malcolm Stevenson	208	Far Hills, N.J.	69	[p. 208]	Publishing
Ford family	294	Grosse Pointe, Mich.	-	600	Inheritance (Ford Motor)
Ford, Josephine Clay	188	Grosse Pointe Farms, Mich.	65	340	Inheritance (Ford Motor)
Ford, Kenneth William★	271	Roseburg, Ore.	80	230	Timber
Ford, William Clay	188	Grosse Pointe Shores, Mich.	63	630	Inheritance (Ford Motor)
Frankino, Samuel Joseph	259	Palm Beach, Fla.	64	280	Agency Rent-A-Car
Freeman, Mansfield★	229	Greensboro, Vt.	93	240	Insurance
Fribourg, Michel	181	NYC	75	750	Grain trader
Fuqua, John Brooks★	264	Atlanta	70	260	Entrepreneur
Furst, Austin Owen Jr.●	322	New Canaan, Conn.	45	-	Vestron
G					
Galbreath, Daniel Mauck	204	Columbus, Ohio	60	500	Real estate
Galesi, Francesco	258	NYC	57	290	Real estate
Gallo, Ernest	232	Modesto, Calif.	79	350	Wine
Gallo, Julio R.	232	Modesto, Calif.	77	350	Wine
Gallagher, Robert William	234	Barrington Hills, Ill.	66	350	Motorola
Gates, Charles Cassius	204	Denver	67	500	Gates Corp.
Gates, William Henry III	170	Seattle	32	1,100	Microsoft
Gibson, Lewis	168	Oklahoma City	69	1,100	Broadcasting
Gibson, Robert	270	Malibu, Calif.	45	240	Music
Gibson, Robert	328	Liberty, N.Y.	59	200	Cable television
Gibson, Robert	294	Calif.; London, et al.	-	3,000	Oil

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Getty, Gordon Peter.....	212	San Francisco	54	450	Inheritance (oil)
Glazer, Guilford.....	218	Beverly Hills, Calif.	67	430	Real estate
Goldman family.....	294	NYC; Honolulu; Colorado	-	400	Inheritance
Goldman family (Sol).....	296	NYC	-	300	Inheritance (real estate)
Goldman, Sol.....	322	NYC	dec.	-	Real estate
Goldman, Lillian*.....	220	NYC	66	400	Inheritance (real estate)
Goodman, Murray Henry*.....	272	Palm Beach, Fla.	62	230	Real estate
Goodson, Mark Les.....	226	NYC	73	375	Game shows
Gottwald, Bruce Cobb.....	267	Richmond, Va.	55	250	Ethyl Corp.
Gottwald, Floyd Dewey Jr.	267	Richmond, Va.	66	250	Ethyl Corp.
Graham, Katharine.....	188	Washington, D.C.	71	600	Washington Post Co.
Green, Dorothy (Dolly).....	270	Beverly Hills, Calif.	80s	240	Inheritance (oil)
Green, Pincus.....	181	Zug, Switzerland	54	750	Commodities trading
Greenberg, Maurice Raymond.....	229	NYC	63	360	American International Group
Greenewalt, Margaretta Lamot du Pont.....	324	Greenville, Del.	86	-	Inheritance (Du Pont)
Griffin, Ben Hill Jr.....	253	Avon Park, Fla.	78	300	Citrus
Griffin, Mervyn Edward.....	254	Beverly Hills, Calif.	63	300	Television
Gruss, Joseph S.....	218	NYC	85	420	Investments
Guccione, Robert Charles Jos. Ed. S.	248	NYC	56	300	Publishing
Guirlinger, Austin Edward*.....	244	Columbus, Ohio	62	325	Modular homes
Gund family.....	296	Cleveland origin	-	750	Inheritance
H					
Haas family.....	296	San Francisco	-	600	Levi Strauss & Co.
Haas, Fritz Otto.....	226	Ambler, Pa.	73	370	Rohm & Haas
Haas, John Charles.....	226	Villanova, Pa.	70	370	Rohm & Haas
Haft family.....	296	Washington, D.C.	-	400	Retailing, real estate
Haft, Herbert Herman.....	324	Washington, D.C.	68	-	Retailing, real estate
Haft, Robert Michael.....	324	Washington, D.C.	35	-	Retailing, real estate
Hall, Donald Joyce.....	196	Mission Hills, Kans.	60	560	Hallmark Cards
Hamilton, Dorrance Hill.....	260	Strafford, Pa.	60	250	Inheritance (Campbell Soup)
Hammons, John Quentin.....	248	Springfield, Mo.	65	300	Holiday Inns
Harbert, John Murdoch III.....	204	Birmingham, Ala.	66	500	Construction
Hardie, Mary Jane Hoiles.....	240	Marysville, Calif.	66	335	Newspapers
Hardy, Joseph Alexander*.....	235	Pittsburgh	65	350	Building supplies
Hearst family.....	-	Calif.; NYC, et al.	-	-	Inheritance
Hearst, David Whitmire Jr.*.....	181	Los Angeles	44	370	Inheritance
Hearst, George Randolph Jr.....	181	Los Angeles	61	375	Inheritance
Hearst, Hope Chandler.....	324	Beverly Hills, Calif.	67	-	Inheritance
Hearst, Randolph Apperson.....	181	NYC	72	750	Inheritance
Hearst, William Randolph Jr.....	181	NYC	80	750	Inheritance
Hechinger family.....	-	Washington, D.C.	-	-	Building supplies
Heinz, Henry John III.....	242	Fox Chapel, Pa.	50	330	H.J. Heinz Co.
Helmsley, Harry Brakmann.....	158	NYC	78	1,700	Real estate
Hemmeter, Christopher Bagwell*.....	273	Kahala Beach, Hawaii	49	225	Real estate
Hess, Leon.....	219	NYC	74	400	Amerada Hess Corp.
Hewlett, William Redington.....	172	Portola Valley, Calif.	75	1,000	Hewlett-Packard
Hill, Margaret Hunt.....	167	Dallas	73	1,200	Inheritance (oil)
Hillenbrand family.....	296	Batesville, Ind.	-	690	Caskets
Hillman, Henry Lea.....	150	Pittsburgh	69	2,500	Industrialist
Hilton, William Barron*.....	234	Los Angeles	61	350	Hilton Hotels
Hines, Gerald Douglas*.....	273	Houston	63	225	Real estate
Hixon family.....	296	Pasadena, Calif.	-	630	Connectors
Hobby, Oveta Culp.....	186	Houston	83	650	Media
Hoiles family.....	-	Calif., et al.	-	-	Newspapers
Hoiles, Harry Howard.....	240	Santa Ana, Calif.	72	335	Newspapers
Horvitz family.....	-	Cleveland; Hollywood, Fla.	-	-	Inheritance (media)
Horvitz, Harry Richard*.....	266	Cleveland	68	260	Inheritance (media)
Horvitz, Leonard C.*.....	266	Cleveland	65	260	Inheritance (media)
Horvitz, William D.*.....	266	Hollywood, Fla.	62	260	Inheritance (media)
Hostetter, Amos Barr Jr.....	273	Boston	51	225	Cable television
Houghton family.....	298	Coming, N.Y.	-	400	Coming Glass Works
Howard, Robert Staples.....	201	Rancho Santa Fe, Calif.	64	530	Publishing
Hoyt family.....	298	NYC area; Santa Fe, N.M.	-	330	Carter-Wallace
Hubbard, Stanley Stub.....	240	St. Mary's Point, Minn.	55	330	Broadcasting
Huffington, Roy Michael.....	224	Houston	70	390	Oil
Hunt brothers.....	298	Dallas	-	600	Inheritance
Hunt, Caroline Rose.....	180	Dallas	65	900	Inheritance (oil)

*New entry. ☆Returnee ●Dropout —ear miss

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	Page	Residence	Age	Worth (\$mil)	Primary sources
Hunt, Johnnie Bryan	267	Lowell, Ark.	61	250	Trucking
Hunt, Ray Lee.....	164	Dallas	45	1,300	Inheritance
Hunting family.....	300	Grand Rapids, Mich.	-	1,200	Steelcase
<i>J</i>					
Icahn, Carl Cehan	179	Bedford, N.Y.	52	940	Financier
Idema family.....	300	Grand Rapids, Mich.	-	1,200	Steelcase
Imperatore, Arthur Edward*.....	271	NYC	63	230	Trucking
<i>J</i>					
Jacobs, David H.	216	Bay Village, Ohio	67	300	Shopping centers
Jacobs, Irwin Lawrence	270	Minneapolis	47	240	Investments
Jacobs, Jeremy Maurice.....	188	East Aurora, N.Y.	48	600	Sports concessions
Jacobs, Richard E.	216	Lakewood, Ohio	63	440	Shopping centers
Jamail, Joseph Dahr†	326	Houston	62	220	Law
Johnson family	300	Scattered	-	530	Inheritance (Johnson & Johnson)
Johnson, Barbara Piasecka	212	Princeton, N.J.	51	465	Inheritance
Johnson, Edward Crosby III	201	Boston	58	530	Money management
Johnson, Samuel Curtis	186	Racine, Wis.	60	710	S.C. Johnson & Son
Jones, Glenn Robert†	328	Denver	58	200	Cable television
Jordan family	300	Boston origin	-	550	Inheritance
<i>K</i>					
Kalikow, Peter Stephen.....	207	NYC	45	500	Real estate
Kalmanovitz, Lydia	258	Tiburon, Calif.	83	280	Inheritance (beer)
Kaskel, Howard	204	NYC	51	500	Real estate
Kauffman, Ewing Marion.....	184	Mission Hills, Kans.	72	740	Marion Laboratories
Kavadas, Kathryn Bancroft●	324	Waban, Mass.	36	-	Inheritance (Dow Jones)
Keck, Howard Brighton.....	244	Los Angeles	75	315	Superior Oil Co.
Keck, William Myron III☆.....	244	Los Angeles	46	245	Superior Oil Co.
Keinath, Pauline MacMillan	271	Unknown	54	230	Inheritance (Cargill, Inc.)
Kelley family	300	Honolulu, Hawaii	-	500	Hotels
Kelly, William Russell	214	Fort Lauderdale, Fla.	82	450	Kelly Services
Kennedy family	300	Boston origin	-	600	Inheritance
Kerkorian, Kirk.....	179	Beverly Hills, Calif.	71	950	Investments
King family	302	Short Hills, N.J.; NYC, et al.	-	300	King World Productions
Kleberg family	302	King Ranch, Tex.	-	1,000	Inheritance
Klink, Bettina●.....	326	Los Angeles	47	-	Inheritance (Dow Jones)
Kluge, John Werner	149	Charlottesville, Va.	75	3,200	Metromedia
Knight, James Landon	270	Bal Harbour, Fla.	79	240	Knight-Ridder, Inc.
Knight, Philip Hampson	220	Beaverton, Ore.	50	400	Nike, Inc.
Koch, Charles de Ganahl	168	Wichita, Kans.	52	1,100	Inheritance
Koch, David Hamilton.....	168	NYC	48	1,100	Inheritance
Koch, Frederick Robinson.....	193	NYC	55	450	Inheritance
Koch, William Ingraham.....	193	Boston	48	600	Inheritance
Kogod, Arlene Smith*	258	Washington, D.C.	54	290	Real estate
Kohlberg, Jerome Spiegel Jr.	242	Mt. Kisco, N.Y.	63	330	Leveraged buyouts
Kohler family	302	Kohler, Wis. origin	-	460	Plumbing fixtures
Koll, Donald Milton●.....	326	Newport Beach, Calif.	55	-	Real estate
Kozmetsky, George☆.....	269	Austin, Tex.	71	240	Teledyne
Kravis, Henry R.	242	NYC	44	330	Leveraged buyouts
Krehbiel, John Hammond Sr.....	258	Downers Grove, Ill.	82	280	Molex Inc.
Kroc, Joan Beverly	184	La Jolla, Calif.	60	745	Inheritance (McDonald's)
<i>L</i>					
Landegger family●.....	-	NYC	-	-	Paper mills
Landegger, Carl Clement☆.....	219	NYC	58	400	Paper mills
Landegger, George Francis☆.....	219	NYC	50	400	Paper mills
Lauder, Estée	213	NYC	80	450	Cosmetics
Lauder, Leonard Alan.....	213	NYC	55	450	Cosmetics
Lauder, Ronald Steven	213	NYC	44	450	Cosmetics
Laughlin, Donald Joseph	328	Laughlin, Nev.	57	220	Gambling
Lauren, Ralph	214	NYC	49	450	Apparel
Lawrence family.....	302	NYC area	-	460	Inheritance (real estate)
Lawrence, M. Larry	214	San Diego, Calif.	62	450	Real estate
LeBow, Bennett Stephen	214	Saddle River, N.J.	50	330	Financier
LeFrak, Samuel Jayson	300	NYC	70	1,500	Real estate
Lerner, Alfred*	214	Shaker Heights, Ohio	55	230	Banking
Lerner, Theodore Nathan*	248	Chevy Chase, Md	62	300	Real estate

★New entry ☆Returnee ●Dropout ○Not listed

D.H. Blair & Co., Inc.

1988 MARKET PERFORMANCE

	Jan. 1, 1988	Aug. 31, 1988	% Change
Dow Jones Industrial Average	1,938.83	2,061.67	+ 6.3%
1988 D.H. Blair IPO's			+51.7%

D.H. Blair New Issues	Date of Offering	Offering Price	Aug. 31, 1988 Price	% Change
Imtech*	4/6/88	5.00	12.25	+145.0
CytRx Biopool*	5/3/88	6.00	6.50	+ 8.3
Myo-Tech*	5/17/88	5.00	4.5625	- 8.8
Xtramedics*	5/31/88	3.60	5.25	+ 45.8
Datavend*	6/8/88	5.00	8.25	+ 65.0
Marrow Tech*	6/9/88	5.00	7.75	+ 55.0

Average Price Increase + 51.7%

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**Source Feb. 8, 1988 Issue of the IPO Reporter

Past performance is not necessarily
an assurance of future results.

The Forbes Four Hundred

	Page	Residence	Age	Worth (\$mil)	Primary sources
Lewis, Ralph Milton†.....	328	Upland, Calif.	68	200	Real estate
Lilly family.....	322	Indianapolis, et al.	-	1,200	Pharmaceuticals
Lindner, Carl Henry II.....	179	Cincinnati	69	950	Insurance
Littlefield, Edmund Wattis●.....	322	Burlingame, Calif.	74	-	Utah International
Litwin, Leonard.....	259	NYC	72	275	Real estate
Louis, John Jeffry Jr.....	224	Winnetka, Ill.	63	375	Inheritance (S.C. Johnson & Co.)
Ludwig, Daniel Keith.....	196	NYC	91	550	Shipping
Lupton, John Thomas.....	208	Chattanooga, Tenn.	62	480	Coca-Cola bottling
Lurie, Robert Alfred.....	224	San Francisco	59	385	Inheritance
Lurie, Robert Harris.....	220	Chicago	46	390	Investments
Lusk, John David●.....	324	Newport Beach, Calif.	80	-	Real estate
Lykes family.....	302	Florida, et al.	-	900	Shipping
Lyon, William.....	256	Newport Beach, Calif.	65	300	Real estate
M					
MacElree, Jane Cox.....	258	Newtown Square, Pa.	59	290	Inheritance (Dow Jones)
Mack family.....	302	NYC area	-	500	Real estate
MacMillan family.....	288	Minneapolis	-	2,000	Inheritance (Cargill, Inc.)
MacMillan, Cargill Jr.....	271	Minneapolis	61	230	Inheritance (Cargill, Inc.)
MacMillan, John Hugh III.....	271	Hillsboro Beach, Fla.	60	230	Inheritance (Cargill, Inc.)
MacMillan, W. Duncan.....	271	Wayzata, Minn.	58	230	Inheritance (Cargill, Inc.)
MacMillan, Whitney.....	271	Minneapolis	59	230	Inheritance (Cargill, Inc.)
Magness, Bob John.....	216	Denver	64	435	Cable television
Malkin, Judd David.....	218	Winnetka, Ill.	50	400	Real estate
Mandel family.....	304	Shaker Heights, Ohio, et al.	-	550	Premier Industrial Corp.
Mandel, Jack N.●.....	322	Shaker Heights, Ohio	76	-	Premier Industrial Corp.
Mandel, Joseph C.●.....	322	Lyndhurst, Ohio	74	-	Premier Industrial Corp.
Mandel, Morton Leon●.....	322	Shaker Heights, Ohio	67	-	Premier Industrial Corp.
Mann, Ted†.....	328	Los Angeles	65	215	Movie theaters
Manoogian, Alex.....	188	Grosse Pointe Farms, Mich.	87	260	Masco Corp.
Manoogian, Richard Alexander.....	188	Grosse Pointe Farms, Mich.	52	625	Masco Corp.
Marion, Anne Burnett☆.....	229	Fort Worth	49	360	Inheritance (oil)
Markkula, Armas Clifford Jr.....	254	Woodside, Calif.	46	300	Apple Computer
Marriott, Alice Sheets.....	268	Washington, D.C.	81	245	Inheritance (Marriott Corp.)
Marriott, John Willard Jr.....	268	Chevy Chase, Md.	56	245	Inheritance (Marriott Corp.)
Marriott, Richard Edwin.....	268	Potomac, Md.	49	245	Inheritance (Marriott Corp.)
Mars, Forrest Edward Jr.....	162	McLean, Va.	57	1,300	Candy
Mars, Forrest Edward Sr.....	162	Las Vegas	80s	1,300	Candy
Mars, John Franklyn.....	162	Arlington, Va.	54	1,300	Candy
Marshall, Barbara Hall.....	196	Kansas City, Mo	65	285	Inheritance (Hallmark Cards)
Marx, Leonard Maximilian.....	243	Scarsdale, N.Y.	84	330	Real estate
May, Cordelia Scaife.....	213	Ligonier, Pa.	60	450	Inheritance
May, Irene Sophie du Pont●.....	326	Wilmington, Del.	87	-	Inheritance (Du Pont)
McCaw, Bruce R.....	264	Seattle	42	260	McCaw Communications
McCaw, Craig O.....	264	Seattle	39	260	McCaw Communications
McCaw, John Elroy Jr.....	264	Seattle	37	260	McCaw Communications
McCaw, Keith W.....	264	Seattle	35	260	McCaw Communications
McClatchy family.....	304	Sacramento, Calif., et al.	-	400	Newspapers
McDonnell family.....	304	St. Louis	-	350	McDonnell Douglas
McEvoy, Nan Tucker●.....	232	San Francisco	69	350	Inheritance (publishing)
McGovern, Patrick Joseph.....	228	Nashua, N.H.	51	370	Publishing
McGraw family.....	304	NYC, et al.	-	635	McGraw-Hill
Mead family.....	304	Wisconsin Rapids, Wis.	-	800	Consolidated Papers
Mejer, Frederik G.H.★.....	232	Grand Rapids, Mich.	69	350	Retailing
Mellon family.....	304	The Plains, Va., et al.	-	1,200	Inheritance
Mellon, Paul.....	184	Upperville, Va.	81	750	Inheritance
Mellon, Timothy.....	272	Manchester, N.H.	46	225	Inheritance
Mendik, Bernard H.....	236	NYC	59	340	Real estate
Meyer, August Christopher.....	226	Champaign, Ill.	87	375	Broadcasting
Milken, Michael Robert.....	180	Encino, Calif.	42	800	Financier
Milliken, Gerrish Hall.....	188	Greenwich, Conn	71	430	Textiles
Milliken, Minot King●.....	322	NYC	72	-	Textiles
Milliken, Roger.....	188	Spartanburg, S.C.	72	630	Textiles
Mills, Alice Francis du Pont.....	300	Middleburg, Va.	75	260	Inheritance (Du Pont)
Milstein, Monroe Gary●.....	322	Burlington, N.J.	61	-	Burlington Coat Factory
Milstein, Paul.....	226	NYC	66	375	Real estate
Milstein, Seymour.....	226	NYC	68	375	Real estate

★New entry ☆Returnee ●Dropout. †Not in 1987

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**WHEN YOU REALIZE
THE FUTURE'S BEHIND YOU, YOU DON'T
TAKE YOUR STEPS LIGHTLY.**

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	Page	Residence	Age	Worth (\$mil)	Primary sources
Mitchell, George Phydias	254	Houston	69	300	Oil
Monaghan, Thomas Stephen	208	Ann Arbor, Mich.	51	480	Pizza
Moncrief, William Alvin Jr.	208	Fort Worth	68	475	Oil
Moody, Robert Lee	196	Galveston, Tex.	53	550	American National Insurance
Moore, Gordon Earle	228	Santa Clara County, Calif.	59	370	Intel Corp.
Moore, Jerry J.	194	Houston	60	600	Shopping centers
Morgan, Frank Sherman	254	Kansas City, Mo.	61	300	Banks
Morris, William Shivers III	253	Augusta, Ga.	54	300	Newspapers
Mugar, David Graves	266	Boston	49	250	Inheritance (broadcasting)
Murdoch, Keith Rupert	167	NYC	57	1,200	News Corp.
Murdock, David Howard	179	Bel Air, Calif.	65	900	Investments
Murphy family	304	El Dorado, Ark.	-	600	Oil
<i>N</i>					
Naify, Marshall	245	San Francisco	68	315	Movie theaters
Naify, Robert Allen	245	San Francisco	66	315	Movie theaters
Newhouse, Donald Edward	150	NYC	59	2,600	Publishing
Newhouse, Samuel Irving Jr.	150	NYC	60	2,600	Publishing
Nichols, Miller	248	Prairie Village, Kans.	77	300	Real estate
Nielsen, Arthur Charles Jr. ●	324	Winnetka, Ill.	69	-	A.C. Nielsen Co.
Nordstrom family	306	Seattle	-	1,000	Retailing
<i>O</i>					
O'Connor family	306	Victoria, Tex.	-	425	Inheritance
Olenicoff, Igor†	328	Laguna Beach, Calif.	44	200	Real estate
Olsen, Kenneth Harry	267	Lincoln, Mass.	62	250	Digital Equipment Corp.
Ordway family●	-	St. Paul origin	-	-	Inheritance (3M)
Ottaway, James Haller Sr.●	324	Campbell Hall, N.Y.	77	-	Newspapers
O'Neill, Richard Jerome	259	San Juan Capistrano, Calif.	64	275	Inheritance (real estate)
<i>P</i>					
Packard, David	155	Los Altos Hills, Calif.	76	2,000	Hewlett-Packard
Palevsky, Max☆	269	Beverly Hills, Calif.	64	240	Computers
Paley, William S.	216	NYC	87	440	CBS, Inc.
Pamplin, Robert Boisseau	264	Portland, Ore.	76	260	Textiles
Park, Roy Hampton	210	Ithaca, N.Y.	78	475	Park Communications
Parker, Jack	235	NYC	73	350	Real estate
Pasquerilla, Frank James*	234	Johnstown, Pa.	62	350	Real estate
Paulson, Allen Eugene	226	Savannah, Ga.	66	375	Gulfstream Aerospace Corp.
Paulucci, Luigino Francesco	196	Sanford, Fla.	70	550	Food processing
Paxson, Lowell W.●	324	Clearwater, Fla.	53	-	Home Shopping Network
Pearson, Edith du Pont●	326	Montchanin, Del.	76	-	Inheritance (Du Pont)
Peery, Richard Taylor	267	Palo Alto, Calif.	49	250	Real estate
Pennington, Claude Bernard	218	Baton Rouge, La.	88	400	Oil
Pennington, William Norman	260	Reno, Nev.	65	240	Circus Circus Enterprises
Perdue, Franklin Parsons	234	Salisbury, Md.	68	350	Chickens
Perelman, Ronald Owen	174	NYC	45	1,000	Leveraged buyouts
Perenchio, Andrew Jerrold	224	Bel Air, Calif.	57	390	Television
Perot, Henry Ross	150	Dallas	58	3,000	Electronic Data Systems
Petersen, Robert Einar	236	Beverly Hills, Calif.	62	340	Publishing
Petrie, Milton Jack	181	NYC	85	750	Petrie Stores
Pew family	306	Philadelphia origin	-	360	Inheritance
Phipps family	306	Westbury, N.Y.	-	1,900	Inheritance (steel)
Pictet, Marion MacMillan	271	Geneva, Switzerland	55	230	Inheritance (Cargill, Inc.)
Pigott family	306	Seattle	-	610	Inheritance (Paccar)
Pilaro, Anthony Martin*	235	Southampton, N.Y.	52	340	Duty-free shops
Pitcairn family	310	Bryn Athyn, Pa., et al.	-	650	Inheritance
Pogue, Alfred Mack	234	Dallas	54	350	Real estate
Pohlad, Carl Ray	186	Minneapolis	73	670	MEI Corp.
Pontikes, Kenneth Nicholas●	324	Barrington, Ill.	48	-	Computer equipment
Portman, John Calvin†	328	Atlanta	63	220	Real estate
Price, Sol●	324	La Jolla, Calif.	72	-	The Price Co.
Pritzker, Jay Arthur	154	Chicago	66	2,200	Financier
Pritzker, Robert Alan	154	Chicago	62	2,200	Financier
Pulitzer family	310	St. Louis, et al.	-	440	Inheritance (publishing)
Pulliam, Eugene Smith	266	Indianapolis	74	250	Newspapers

★New entry. ☆Returnee. ●Dropout. †Near miss

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Celeste Rivera
Flight Attendant

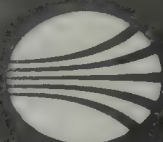
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R

	Page	Residence	Age	Worth (\$mil)	Primary sources
Rainwater, Richard Edward.....	273	Fort Worth	44	225	Investments
Redstone, Sumner Murray.....	160	Newton Centre, Mass.	65	1,400	Viacom, Inc.
Reid, Elizabeth Ann Hall.....	196	Denton, Tex.	66	285	Inheritance (Hallmark Cards)
Resnick, Burton Paul.....	220	Rye, N.Y.	51	400	Real estate
Reynolds, Donald Worthington.....	172	Las Vegas	82	1,000	Publishing
Rich, Marc.....	181	Zug, Switzerland	54	750	Commodities trading
Rich, Robert Edward Sr.....	254	Point Abino, Ontario	75	300	Rich Products Corp.
Richardson family.....	310	Greensboro, N.C., et al.	-	550	Inheritance (Richardson-Vicks)
Riklis, Meshulam☆.....	216	NYC	64	440	Financier
Rinker, Marshall Edison (Doc).....	259	Palm Beach, Fla.	83	275	Cement
Roberts, George R.....	242	San Francisco	45	330	Leveraged buyouts
Robins family.....	310	Richmond, Va.	-	300	A.H. Robins
Robinson, Jesse Mack.....	268	Atlanta	65	240	Banking
Rock, Arthur J.●.....	326	San Francisco	62	-	Venture capital
Rockefeller family (John D.).....	310	Scattered	-	4,880	Inheritance (oil)
Rockefeller family (William).....	310	Scattered	-	350	Inheritance (oil)
Rockefeller, David.....	168	NYC	73	1,100	Inheritance
Rockefeller, Laurance Spelman.....	179	NYC	78	900	Inheritance
Rockefeller, Winthrop Paul.....	180	Winrock Farm, Ark.	40	800	Inheritance
Rollins, Orville Wayne.....	186	Atlanta	76	740	Rollins, Inc.
Root, Chapman Shaw.....	267	Ormond Beach, Fla.	63	250	Coca-Cola bottling
Rose family.....	311	NYC	-	350	Real estate
Rosenberg, Ruth Blaustein.....	212	Baltimore, Md.	89	250	Inheritance (oil)
Rosenwald family.....	311	Philadelphia; NYC, et al.	-	300	Inheritance (Sears, Roebuck)
Rudin, Jack.....	186	NYC	64	700	Real estate
Rudin, Lewis.....	186	NYC	61	700	Real estate
Rust, Eleanor Francis du Pont●.....	326	Thomasville, Ga.	81	-	Inheritance (Du Pont)
Ryan, Patrick George.....	270	Chicago	51	240	Insurance

S

Sammons, Charles A.★.....	164	Dallas	90	1,300	Cable television
Sarofim, Fayez Shalaby.....	269	Houston	59	240	Money management
Scaife, Richard Mellon.....	201	Shadyside, Pa.	56	525	Inheritance
Scharbauer, Clarence Jr.....	272	Midland, Tex.	63	225	Inheritance (oil, land)
Schnitzer family●.....	-	Portland, Ore.; Palm Springs	-	-	Steel, shipping, real estate
Schwan, Marvin Maynard★.....	267	Sioux Falls, S.D.	59	250	Ice cream
Scripps family (E.W.).....	312	Cincinnati origin	-	1,200	Inheritance (newspapers)
Scripps family (J.E.).....	312	Detroit, et al.	-	780	Inheritance (newspapers)
Searle, Daniel Crow.....	266	Winnetka, Ill.	62	250	Inheritance (G.D. Searle)
Searle, William Louis.....	266	Lake Forest, Ill.	57	250	Inheritance (G.D. Searle)
Segerstrom family.....	312	Orange County, Calif.	-	500	Real estate
Selig, Martin★.....	272	Seattle	51	230	Real estate
Sharp, Peter Jay.....	253	NYC	58	300	Real estate
Sherman family●.....	-	Dayton, Ohio	-	-	Office equipment
Shoen family.....	312	Phoenix, Ariz.	-	300	U-Haul
Shorenstein, Walter Herbert.....	219	San Francisco	73	400	Real estate
Silliman, Mariana du Pont●.....	326	Montchanin, Del.	77	-	Inheritance (Du Pont)
Silverstein, Larry Abraham.....	226	NYC	57	375	Real estate
Simmons, Harold Clark.....	170	Dallas	57	1,100	Investments
Simmons, Richard Paul†.....	328	Sewickley, Pa.	57	200	Steel
Simon, Herbert.....	201	Indianapolis	53	270	Shopping centers
Simon, Melvin.....	201	Indianapolis	61	550	Shopping centers
Simon, Norton Winfred.....	181	Los Angeles	81	750	Industrialist
Simon, William Edward.....	256	New Vernon, N.J.	60	290	Leveraged buyouts
Simplot, John Richard☆.....	219	Boise, Idaho	79	400	Potatoes
Singleton, Henry Earl.....	194	Los Angeles	71	590	Teledyne
Skaggs, Leonard Samuel Jr.....	245	Salt Lake City	65	310	American Stores Co.
Smart, Richard Palmer Kaleioku.....	253	Honolulu, Hawaii	75	300	Inheritance
Smith family.....	312	Chicago origin	-	600	Illinois Tool Works
Smith (Charles) family●.....	-	Washington, D.C.	-	-	Inheritance (real estate)
Smith, Charles E.★.....	258	Washington, D.C.	87	290	Real estate
Smith, Frederick Wallace●.....	tkk	Memphis, Tenn.	44	-	Federal Express Corp.
Smith, Marian Uldine Day●.....	tkk	Atlanta	54	-	Inheritance (Days Inns)
Smith, Richard Alan.....	224	Chestnut Hill, Mass.	64	385	General Cinema Corp.

★New entry. ☆Returnee. ●Dropout. †Near miss.

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	Page	Residence	Age	Worth (\$mil)	Primary sources
Smith, Robert H.*	258	Washington, D.C.	60	290	Real estate
Smith, Vivian Leatherberry	220	Houston	80	400	Inheritance (oil, real estate)
Snyder, Richard Wesley	272	Dallas	50	230	Snyder General
Solow, Sheldon Henry	210	NYC	60	475	Real estate
Sorenson, James LeVoy	229	Salt Lake City	67	360	Medical devices
Soros, George	258	NYC	57	290	Money manager
Spanos, Alexander Gus	196	Stockton, Calif.	65	550	Real estate
Speer, Roy Merrill	324	Clearwater, Fla.	56	-	Home Shopping Network
Spiegel, Abraham	324	Beverly Hills, Calif.	82	-	Columbia Savings & Loan
Spielberg, Steven Allen	324	Beverly Hills, Calif.	40	-	Movies
Stahl, Stanley Irving	216	NYC	64	430	Real estate
Steinberg, Saul Phillip	219	NYC	49	400	Financier
Stephens, Jackson Thomas	229	Little Rock, Ark.	65	350	Investment banking
Stephens, Wilton Robert	229	Little Rock, Ark.	81	350	Investment banking
Stern, Leonard Norman	162	NYC	50	1,300	Pet supplies
Stone family	312	Chicago	-	485	Stone Container Corp.
Stroh family	312	Detroit	-	700	Inheritance (beer)
Stuart family	313	Bellevue, Idaho; Los Angeles	-	375	Inheritance (Carnation Co.)
Sulzberger, Arthur Ochs	273	NYC	62	225	New York Times
Sulzberger, Iphigene Ochs	273	NYC	96	225	New York Times
Swig family	313	San Francisco	-	550	Real estate
Syms, Sy	324	Lyndhurst, N.J.	62	-	Syms Corp.
T					
Taper, Sydney Mark	244	Los Angeles	87	325	First Charter Financial Corp.
Tauber, Laszlo Nandor	208	Potomac, Md.	73	500	Real estate
Taubman, Adolph Alfred	155	Bloomfield Hills, Mich.	64	1,850	Real estate
Taylor family	318	Boston origin	-	600	Inheritance (publishing)
Temple family	318	Diboll, Tex., et al.	-	950	Inheritance (timber)
Terra, Daniel James	266	Chicago	77	250	Lawter International
Thalheimer, Louis	212	Baltimore	44	250	Inheritance (oil)
Thompson family	-	Dallas	-	-	Southland Corp.
Thorne, Oakleigh Blakeman	208	Millbrook, N.Y.	56	480	Commerce Clearing House
Tisch, Laurence Allan	180	NYC	65	850	Loews Corp.
Tisch, Preston Robert	180	NYC	62	850	Loews Corp.
Tramiel, Jack	270	Zephyr Cove, Nev.	60	240	Atari Corp.
Trump, Donald John	174	NYC	42	1,000	Real estate
Turner, Robert Edward (Ted) III	201	Roswell, Ga.	49	535	Turner Broadcasting System
Tyson, Barbara	240	Fayetteville, Ark.	39	265	Tyson Foods
Tyson, Donald John	240	Springdale, Ark.	58	330	Tyson Foods
U					
Ueltschi, Albert Lee	254	Greenwich, Conn.	71	300	FlightSafety International
Upjohn family	318	Kalamazoo, Mich.	-	1,400	Inheritance (Upjohn Co.)
V					
van Beuren, Hope Hill	260	Middletown, R.I.	54	250	Inheritance (Campbell Soup)
Van Every family	-	N.C.; S.C., et al.	-	-	Lance, Inc.
Van Kampen, Robert Donald	269	West Chicago	49	240	Bonds
Vogel, Jacqueline Mars	162	Bedminster, N.J.	49	1,300	Candy
von Platen, Ruth Chandler	322	San Marino, Calif.	dec.	-	Times Mirror Co.
W					
Wagner, Cynl Anthony Jr.	222	Midland, Tex.	54	390	Oil
Walton, James Lawrence	244	Bentonville, Ark.	66	320	Wal-Mart Stores
Walton, Sam Moore	149	Bentonville, Ark.	70	6,700	Wal-Mart Stores
Wang, An	228	Lincoln, Mass.	68	365	Wang Laboratories
Ward, Louis Larrick	186	Kansas City, Mo.	68	650	Russell Stover Candies, Inc.
Wasserman, Lewis Robert	273	Beverly Hills, Calif.	75	225	MCA, Inc.
Watson family	318	Armonk, N.Y. origin	-	330	International Business Machines
Wattis family	318	Ogden, Utah origin	-	900	Inheritance (Utah International)
Weber, Charlotte Colket	324	Ocala, Fla.	45	-	Inheritance (Campbell Soup)
Wege family	300	Grand Rapids, Mich.	-	1,200	Steelcase
Weiler family	318	NYC	-	500	Real estate
Weinberg, Harry	180	Honolulu	80	850	Real estate
Weinberg, John Livingston	324	NYC	63	-	Goldman, Sachs & Co.
Weis, Robert Freeman	214	Sunbury, Pa.	69	380	Weis Markets, Inc.

*New entry. ☆Returnee. ●Dropout. ○Miss

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	Page	Residence	Age	Worth (\$mil)	Primary sources
Weis, Sigfried.....	214	Lewisburg, Pa.	72	450	Weis Markets, Inc.
Wexner, Bella●.....	324	Columbus, Ohio	70s	—	The Limited, Inc.
Wexner, Leslie Herbert.....	174	Columbus, Ohio	51	1,000	The Limited, Inc.
Weyerhaeuser family.....	318	St. Paul; Seattle, et al.	—	1,000	Inheritance (timber)
Whitney, Betsey Cushing Roosevelt.....	248	Manhasset, N.Y.	80	300	Inheritance
Whittier family.....	320	Southern Calif.	—	700	Inheritance (oil)
Wien, Lawrence Arthur.....	234	NYC	83	350	Real estate
Wirtz family.....	320	Chicago	—	500	Inheritance (real estate)
Wolfe family.....	320	Columbus, Ohio, et al.	—	550	Inheritance (newspapers)
Woodner, Ian★.....	243	NYC	85	330	Real estate
Wrigley, William.....	219	Lake Geneva, Wis.	55	400	Chewing gum

Y

Yates family.....	320	Artesia, N.M.	—	380	Oil
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Z

Zell, Samuel.....	220	Chicago	46	390	Real estate
Ziff, William Bernard Jr.....	170	Manalapan, Fla.	57	1,000	Publishing
Zuckerman, Mortimer Benjamin.....	266	NYC	51	250	Real estate

★New entry. ☆Returnee. ●Dropout. †Near miss.

Box Scores

This is the year the rich got poorer. The total estimated net worth of the 400 individuals who made our list last year, including the 52 who dropped off this year, fell 5%, to \$210 billion. It doesn't look like it in the tables below, since total estimated net worth of the 400 richest people we could find in America this year is the same as last year's \$220 billion, and average net worth apparently is also practically unchanged at \$551 million (the extra \$1 million is the result of rounding). What happened? The underlying drop is obscured by our year-round research,

which constantly turns up previously undiscovered private fortunes. A new discovery worth, say, \$325 million pushes somebody less rich off the bottom worth \$225 million. Net apparent gain, \$100 million; net real gain, \$0. This year not one but two previously unsuspected billionaires grace our pages, each replacing some \$225 million semipauper. Meanwhile, some of the people on last year's list have taken sizable hits. Sam Walton, for instance, is down nearly \$2 billion. It wasn't such a bad year to be in Treasurys.

1982	1983	1984	1985	1986	1987	1988
400 net worth (\$bil)						
92	118	125	134	156	220	220
average net worth (\$mil)						
230	295	315	335	390	550	551
minimum net worth (\$mil)						
71	125	150	150	180	225	225
known billionaires						
13	15	12	13	26	49	51
new entries						
—	74	44	64	56	80	52
women						
66	64	69	78	77	55	49
inherited						
206	194	146	181	168	162	154
agriculture						
9	10	21	16	16	16	16

1982	1983	1984	1985	1986	1987	1988
finance						
19	53	48	45	59	69	65
high tech						
4	12	15	12	10	16	15
oil and gas						
70	64	74	64	48	29	30
real estate						
48	48	71	83	59	73	87
retailing						
15	15	19	19	22	18	21
media						
38	62	59	69	58	75	73
manufacturing						
70	105	95	103	92	84	75

It seems absurd that so few people should be worth so much when so many people have nothing at all. The author of "Wealth and Poverty" explains why redistributing wealth would be far more absurd.

By George Gilder

EVERY YEAR, when this issue of *FORBES* appears, Americans are reminded that the 400 richest people in America live in a world with 4 billion poor people. Hard questions are quickly and properly asked: Why, on a planet riven with famine, poverty and disease, should this tiny minority be allowed to control riches millions of times greater than their needs? Why should Wal-Mart's Sam Moore Walton have \$6.7 billion, while the President of the U.S. earns just \$200,000 a year? While a hardworking high school teacher struggles by on \$25,000 a year? While hundreds of thousands of Americans are homeless, and many thousands of children malnourished? Or, more broadly:

Tied to the masts of their fortunes



Why should the top 1% of families own 36% of the nation's personal wealth, while the bottom 11% are awash in debt or have no measurable net worth at all?

To many people, these huge disparities seem to defy every sense of proportion and propriety. It is not only the million-dollar-a-year anchormen who ask these questions but lots of sensible and successful business people as well.

Could we create a system of capitalism without indecently rich capitalists? Would it be possible to contrive an economy just as prosperous as the U.S.' but with a far more just and appropriate distribution of wealth—with personal wealth capped at, say, \$15 million, or even \$100 million?

It is not possible, but not for the

Cary Henrie reasons many of capitalism's most ardent defenders suggest. The usual case for capitalism maintains that greed may drive Ivan Boesky or Marc Rich to unacceptable behavior, but that same greed also drives individuals to lift the material standard of living for society as a whole. This was essentially the argument of Adam Smith. Writing in defense of what might have been The Forbes Four Hundred of his day, Smith declared that it is only from the capitalist's "luxury and caprice," his desire for "all the different baubles and trinkets in the economy of greatness," that the poor "derive that share of the necessities of life, which they would in vain have expected from his humanity or his justice." He continued:

"In spite of their [the rich men's] natural selfishness and rapacity, though they mean only their own convenience, though the sole end which they proposed from the labours of all the thousands they employ, be the gratification of their own vain and insatiable desires . . . they are led by an invisible hand . . . and without intending it, without knowing it, advance the interest of society."

And how wrong on this point about greed the canny Scotsman was. This case for capitalism as a Faustian pact by which we trade individual greed for communal wealth misses the point that great wealth is an abstract (and largely irrelevant) monetary expression of successful entrepreneurial activity. This activity is the mainspring of capitalism. The reason capitalism works is not the virtue or greed of capitalists, or the invisible hand of the market. Capitalism works because the people who create wealth are rewarded with the right and burden of reinvesting it. The rich know how to maintain and expand their holdings, and the market values their knowledge. The rich are a strange mixture because rarely are they chosen by blood, credentials, education or service to the establishment. They are chosen for performance, for services to the people as consumers.

To most people wealth means money. Wealth is what we use to buy fancier cars and bigger houses and send children to college. Hence, most people think Sam Walton's \$6.7 billion net worth is money that can be spent or, at least, capital that can be invested in, say, Treasury bills, the interest on which is money that can then be spent. At current rates, \$6.7 billion in T bills would yield Walton around \$1.5 million a day.

This misconstrues what wealth to the wealthy really is.

Wealth to the business person is what freedom of speech and access to the public are to a writer or to a politician. It is the business person's very means of production. Therefore, to cap his wealth would be like capping the number of readers or followers allowed to a journalist, a thinker or a politician.

Since their wealth is mostly invested, the American rich, in general, cannot revel in it. Most of it is not even liquid. It's not what the rest of us see as money. Wealth to the wealthy is their entrepreneurial knowledge and commitment. It's the resources to continue expanding successful enterprises without first gaining the approval of remote boards of experts, politicians or bureaucrats, whether public or private.

Wealth is embodied in a web of enterprise that retains its worth only through constant work and sacrifice by the entrepreneur. The very process of creating wealth is the best possible education for creating more wealth. Every enterprise is an experimental test of an entrepreneurial idea. If it succeeds, it yields a twofold profit: a financial profit, and a profit of knowl-

edge and learning. An economy can continue to grow only if its profits are constantly joined with entrepreneurial knowledge and control. Divorce the financial profits from the learning process or from investment control, and the economy stagnates.

For an example, look no further than stagnating West Germany, where a maze of obstacles hinders the creation of new wealth—although not the hoarding of old fortunes. In the dynamic U.S., by contrast, the rule tends to be rags to riches and back to rags within three generations. Well over half of The Forbes Four Hundred's fortunes are self-made. Those who wonder why the U.S. can create jobs but West Germany cannot should compare each country's treatment of its entrepreneurs.

Suppose the government, with the best income redistribution intentions, had decreed that Sam Walton's net worth could not exceed \$100 million. The effect of that decree would have been to arrest in its tracks Walton's snowballing knowledge about bringing better retail service to the rural South. The decree would have halted Wal-Mart's growth several years ago, at the cost of tens of thousands of jobs and better values for millions of consumers.

Couldn't someone else have taken over? Perhaps. But who? With what knowledge, gained how? Appointed by whom? At every step in Wal-Mart's development, Walton was the most knowledgeable person to take the enterprise to the next step. And, unlike the chief executives of most large committee-run corporations, Walton joined his knowledge with the power to do what he thought right.

Succeeding and wisely delegating at each step, Walton won the right to take the next step, and the next. As Walton's retailing knowledge accumulated, so Wal-Mart's stores and its payroll and its contribution to rural prosperity multiplied. Expressed abstractly—as dollar values on pieces of paper—Walton's own personal worth also grew.

Conversely, think of the Hunt brothers. In 1979 they had command over the investment of large capital resources. They bet on silver. They were wrong and recently filed personal bankruptcies.

The riches of The Forbes Four Hundred all ultimately stem from this process of accumulating entrepre-

*An expert on the entrepreneurial process, George Gilder is finishing his latest book, *Microcosm: Into the Quantum Era of Economics and Technology*, to be published next year by Simon & Schuster.*

neurial knowledge. The new enterprise is the most creative domain in the world economy because it offers the best learning process. A man or woman who builds a company from scratch acquires a depth of understanding of what makes it work that an imported chief executive, however smart and however efficient his management information tools, cannot readily acquire. The entrepreneur gains a dynamic and integrated view of his company, and a realistic view of the needs of the market.

Entrepreneurial knowledge and wealth have very little to do with inherited money—remember that over one half of The Forbes Four Hundred received no significant inherited wealth and many of the rest gained their fortunes from entrepreneurial parents. Nor is their wealth the result of certified expertise or advanced degrees or the learning of establishment schools—the intellectual raw material dear to the theories of the economic planners and other social engineers. But successful business people depend upon a different kind of intellectual raw material. Of The Forbes Four Hundred, at least 9 never finished high school and only 242 out of the 296 who started college graduated.

The fashionably educated and cultivated spurn the kind of fanatically focused learning commanded by The Four Hundred. Great wealth usually comes from doing what other people consider insufferably boring. The intricacies of building codes or garbage routes or software language or groceries, the mechanics of butchering sheep and pigs or frying and freezing potatoes, the mazes of high-yield bonds, the murky lore of petroleum leases or Far Eastern electronics supplies, motivating workers and blandishing union bosses and federal inspectors and the IRS—all are considered tedious or trivial by the established powers.

Most people prefer leaving the grit and relentless details that allow the creation of great wealth to “the experts.” But generally speaking, one achieves great material wealth not by leaving it to experts but by creating new expertise, often painfully. Forrest Mars went bankrupt, failed twice in other ventures before building a fortune in candy bars. Milton Petrie went bankrupt before hitting on the concept that made him worth \$750 million.

Starting an innovative enterprise is an aggressive action, not a reaction that can be rationally planned. The great economist Joseph Schumpeter understood this well when he wrote:

“The problem that is usually being visualized [in economics] is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them. . . . In capitalist reality as distinguished from its textbook picture, it is not that kind of [static] competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization. . . .”

Because entrepreneurship overthrows establishments rather than undergirds them, the very rich in America mostly begin as rebels and outsiders. Often they live in places like Bentonville, Ark.; Omaha, Nebr.; or Mission Hills, Kans. When they buy expensive apartments in New York and move in high social circles, they are usually inheritors of wealth, or getting on in years.

If we smear, harass and overregulate the rich, we will be shocked how swiftly the physical tokens of their wealth and means of production collapse.

Maintaining and increasing wealth is nearly as difficult as creating it. The key to Sam Walton's wealth is his resolution not to spend or abandon it. In the Schumpeterian mindscape of capitalism, the entrepreneurial owners are less captors than captives of their wealth. If they try to take it or exploit it, or simply mismanage it, it will tend to evaporate. As young billionaire Bill Gates has put it, he is “tied to the wheel” of Microsoft. Its worth will collapse overnight if the market believes that the firm is chiefly serving its owner rather than he serving it. Like Walton and most of The Forbes Four Hundred, Gates is as much the slave of his creation as he is its master.

With so much knowledge, experience and hard work focused on them, it is no accident that young, entrepreneurial businesses are creating all the jobs in this country, while many of the old, professionally managed companies are shrinking their payrolls. Yet a society that prohibited great personal fortunes would also be an economy almost completely dominated by professional management and bureaucracy. It is as a result of the failures of smaller bureaucracies that all socialistic countries worth talking about are now freeing up their economies, in the hope that unleashing entrepreneurial activity will end decades of stagnation.

Moving in the opposite direction are those who believe that Sam Walton's \$6.7 billion should—and can—be redistributed to the needy. This group believes that wealth consists in definable and physical things—dollar bills, land, broadcast towers, coaxial cables. They fail to recognize that the real pillars and buttresses of private wealth are metaphysical: the tastes and ideas of customers and investors, the attitudes, moral codes and mental disciplines of business.

In the last year, for example, Austin Furst's videocassette rights, Ken Pontikes' computer leases, Roy Speer and Lowell Paxon's Home Shopping Network all tumbled out of the mindscape of value. Earlier this decade saw the demise of scores of oil and real estate fortunes in Texas and Oklahoma. The underlying oil and buildings did not change. In all these cases the things stayed pretty much the same. But thoughts about them changed. What was supremely valuable in 1980 plunged in value by 1988.

This is why the government could not capture the wealth of The Four Hundred even if it wished to. Under capitalism, wealth is less a stock of goods than a flow of ideas. Schumpeter propounded the basic rule when he declared capitalism “a form of change” that “never can be stationary.” The very act of trying to capture wealth would cause it to evaporate.

People who are really concerned about the poor of America should also concern themselves with the future of the rich in America. If we smear, harass, overtax and overregulate the rich, we will be shocked and horrified to discover how swiftly the physical tokens of their wealth and means of production collapse into so much corroded wire, eroding concrete, scrap metal and jungle rot. “Look on my works, ye Mighty, and despair!” Shelley wrote in the voice of King Ozymandias, whose empires became mere mounds in the Sahara sands.

What makes Sam Walton worth \$6.7 billion? Many things. His encyclopedic lore and marketing prowess in rural America. The loyalties of his workers. The fabric of tacit knowledge that holds together his firm. His long record of constant growth. All are inestimably more valuable than any of the physical buildings and inventories that he could transfer to others. Walton, in other words, is essentially powerless to redistribute his wealth—except by preserving and expanding the fabric of ideas, opportunities and disciplines that underly it and enrich the world. ■

Four members of The Forbes Four Hundred who made their money on Wall Street—Jackson Stephens, Fayez Sarofim, J. Morton Davis and Charles Allen Jr.—share their thoughts on the prospects for stocks.

The Dow at 3000 within two years?

By Ralph King Jr.

WE ARE IN THE MOST lackluster stock market since the stagflation of the mid-1970s. Interest rates are creeping up, but no one knows what they'll do after the November election. Fears of both recession and inflation are rife, though signs of neither are much in evidence. Some stocks look cheap, but there is an acute shortage of commitment.

What do Wall Street's real professionals think lies ahead? Among The Forbes Four Hundred are four men who made their fortunes in the stock market and agreed to share their crystal balls with us. While none much cared for prospects over the short term, all reminded us that the way to significantly increase one's capital is to invest for the long term. Twelve months after Black Monday, Oct. 19, here is what our foursome advises:

Jackson Stephens, 65, chairman and cofounder of Arkansas-based Stephens, Inc., the largest investment firm outside New York.

The stock market is still the best place to be, absolutely. That's where the action's been for the 42 years I've been in business. But there are two things to remember. First, your average investors are scared to death of the stock market. This will change, but I don't know when. Second, for foreigners, one dollar of earnings is not what it used to be. But because they have so much money, they will come in as the dollar improves in value relative to their currency or they get adjusted to present values.

I think a lot of the market players today are disappointed if they don't get an immediate reaction. You can't expect to make 50% on your money every year. You have to find the values and be patient. If I'm real smart, I'll hold for a full cycle, say five to seven years.

Our favorite stocks are in aluminum, food, communications and banking. I like Alcoa and Reynolds. The Japanese still can't compete in aluminum because they don't have the cheap energy that we do. In food, I like RJR Nabisco. Their new smokeless cigarette is going to be big. Communications companies look good, the Baby Bells and the independents. I personally like the smaller ones like Alltel Corp., because you get more bang for your investment.

The bank franchise used to be



Jim Knowles/Picture Group

Stephens, Inc. Chairman Jackson Stephens

"If I'm smart, I'll hold for a full cycle, five to seven years."



Houston money manager Faye Sarofim

Ziggy Kaluzny/Gamma-Liaison

"Valuations of American globally dominant companies are much lower than the valuations of foreign ones."

worth a lot. Now that franchise has been eroded by Wall Street and everybody else coming in and skimming the top. Still you have to love the North Carolina banks, NCNB, Wachovia and First Union. The Fleet Group in Rhode Island is fantastic.

You always have this latent fear of inflation, which could hurt some stocks. I do worry about that. Inflation is the one thing that can kill this country. The inflationary period we went through did a hell of a lot of damage. You had people working all their lives, say for the telephone company, and they contributed to their retirement and had the right to expect enough income at retirement that they could live decently. But the retirement was not enough, they were paupers. That's a damn crime.

I'm not too worried about the government deficit. It was created to provide protection for the country, and now we have peace breaking out all over the world. What's that worth? It's like a guy who goes to the doctor and has a chest X ray and the doctor says you're fine, pay me 50 bucks. And the guy says, good God, I wasted 50 bucks. The alternative would have been a lot worse.

I don't think higher taxes are inev-

itable. Corporate earnings are going to continue to be good, and so will personal income, so tax receipts will increase. A tax hike would knock that right in the head.

The market hasn't done much lately, but you've only had 12 months since Oct. 19. That's just not very long. I can't tell you where it's headed. I don't know. I could go to New York and find out what they're thinking. Then I'd do the opposite.

Houston's Faye Sarofim not only is bullish but he's developed a whole new investment strategy that looks beyond the oil stocks that made his vast fortune, and even beyond the U.S.:

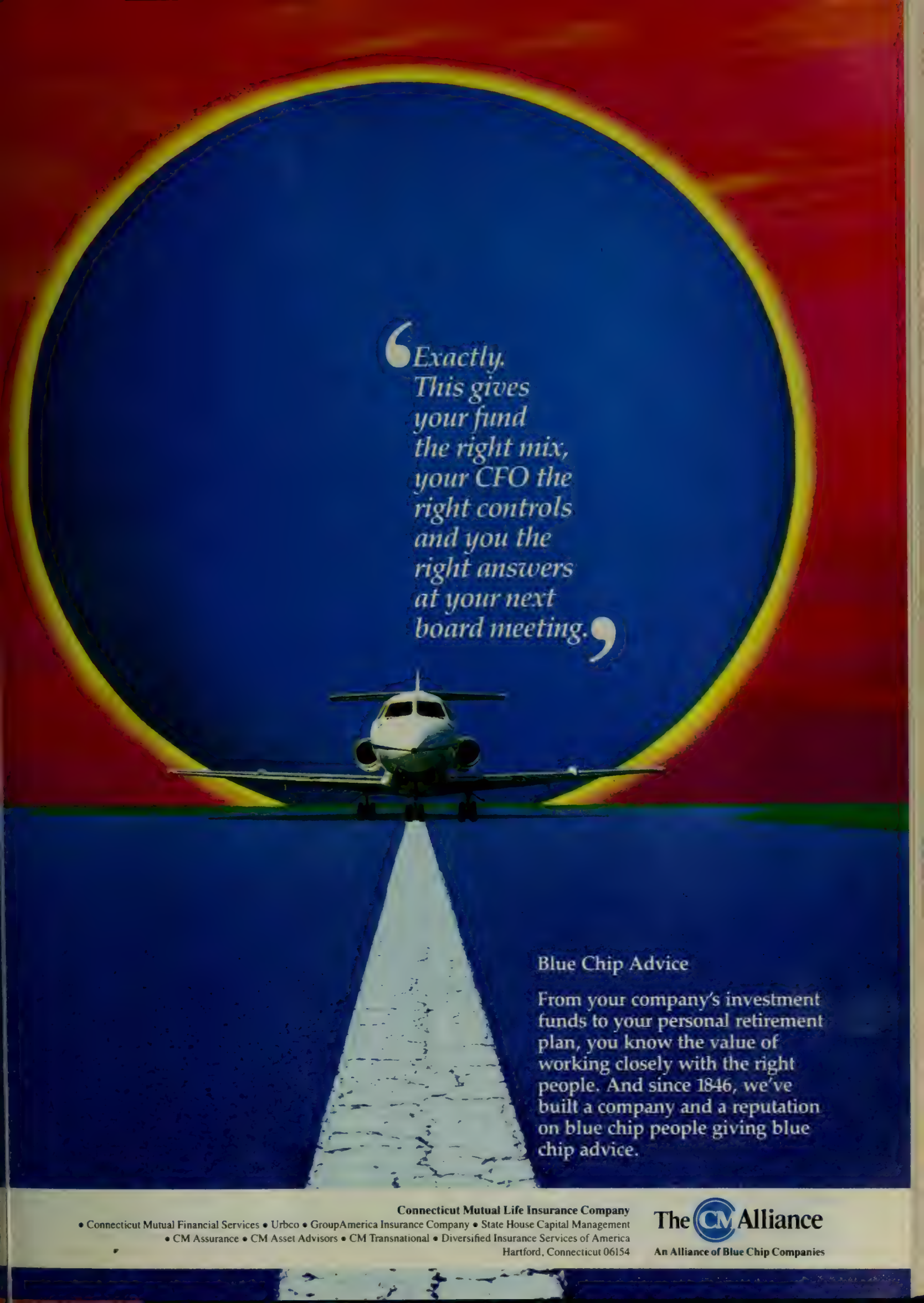
The stock market should be much higher, but individuals have been liquidating. The psychology is negative as an aftermath of Oct. 19. Still, fundamental corporate earnings are coming through, share repurchase and merger activity are at a record pace. From Sept. 1987 to Sept. 1988 profits in the companies we own are up 30%, and next year we're looking for earnings to grow 10% to 15%.

And yet stock prices are down 20% to 25%. Now, even if we have an economic recession in the U.S., the companies we own are global, so they

aren't as vulnerable. Besides, we think the likelihood of a recession throughout the economy is small. When that fear is gone, and the fear of rising inflation is gone, you can see the makings of a better market, because then interest rates might come down. And with the earnings growth that you see, there's no reason, especially with expectations so low, that the Dow won't approach the 3000 level within two years.

In the 1970s when you had rising inflation, we said that natural resources was the place to be. Today we're in a global economy, so we're buying what we label globally dominant companies. The world will be controlled economically by maybe 1,000 to 1,500 multinational companies, some of which are based overseas and some based in the U.S. You can go through the whole list of consumer franchises, Coca-Cola, Philip Morris, Heinz, and dominant players in other areas like GE, Merck, etc. They are good long-term values, they're difficult to duplicate, they're the supreme companies in their businesses, and they have very good earnings predictability.

Now the valuations of American globally dominant companies are



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D.H. Blair Chairman J. Morton Davis

Robin Bowman

Davis made his money peddling speculative stocks, but buys mostly quality for his own account.

much lower than the valuations of foreign ones. If you take Japan, they're significantly lower. In comparison with Europe, less so. Take Coca-Cola, which last year earned more on operations in Japan than in the U.S., and sells at 12 to 13 times earnings, while an equivalent company in Japan sells at 60 to 70 times. Of course, if there's a foreign company equal to and cheaper than an American one, we'll buy it. In time, globalization of values will follow globalization of industry.

If you had \$10,000 ten years ago and invested in different stocks and reinvested the dividends, do you know what you'd have now? Remember, in that time we've had two recessions, one mild in 1979-80 and one more severe in 1981-82. We've had double-digit inflation and the prime rate over 20%. If you'd put it in Loews Corp., you'd have \$170,000, for a 32.8% compounded annual rate of return; in Anheuser-Busch, you'd have \$133,000, for 29%; Philip Morris, \$82,000, for 23%; Merck, \$76,000, for 22.5%; Coca-Cola, \$49,000, for 17.4%. Meanwhile, in the S&P 500, you'd have \$41,000, or 15.2%, and in T bills, just \$25,000, or 9.6%.

So, in that turbulent period, you had a variety of means to achieve good rates of return if you keep your money in short-term or intermediate

bonds, you'd make good returns. But if you buy stocks, you make even better returns. And these stock values were supported by earnings growth; that is, their multiples didn't move up that much. Over the next decade you'll see similar performance.

J. Morton Davis, 59, is chairman of New York investment bank D.H. Blair. Morty Davis has made a lot of his money pushing speculative stocks. But now he's recommending some fairly large-cap stocks as well.

I believe in common stocks. That's where I've made my money, and that's where I'm going to lose it. I don't know anybody who's been able to predict what's going to happen a year from now, or even an hour from now. I have to just go by what I do all the time, and that is, buy things that I think have a value that will be realized. There's no other secret. That's what every other successful guy has done. Inevitably, true values seem to get realized in the market.

Last year, when everybody was optimistic and bullish, that was not the time to be a buyer. Now, everybody says it doesn't look cheap, but the skeptic rarely sees the opportunities that are there. It's amazing that the market doesn't explode, because there are a lot more companies being taken private than there are public

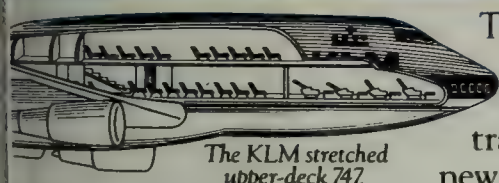
offerings. Foreign buyers are coming in to buy American companies. And then a guy like Paul Bilzerian buys Singer, and everybody thinks he's overpaid, and now he's sold three-quarters of the company for more than he paid for the whole, and he still has a big reward after interest and other costs.

Many public companies are selling at very low prices relative to what has developed recently into private market value. Look at Mead Corp. Its information division shows exciting growth away from the paper and wood business. It's dramatically cheap at ten times earnings. Also, McGraw-Hill and Gulf & Western, which own such valuable publishing outfits. And some of the life insurance companies that have been neglected for years seem to be cheap, like USLIFE. Farmers Group, Inc., for example, was valued at 75% higher after the merger agreement with B.A.T Industries than before it went into play.

If you want to be fairly cautious, I'd say put half your money in something where nothing is going to go wrong, U.S. Treasuries or the equivalent, and the rest into intelligent stock decisions. Either good values that look cheap, like ones I've mentioned, or young companies with good growth prospects. Personally, about 30% of my portfolio is in safety, 20- and 30-

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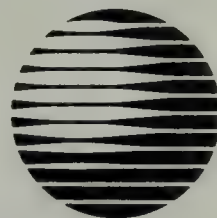
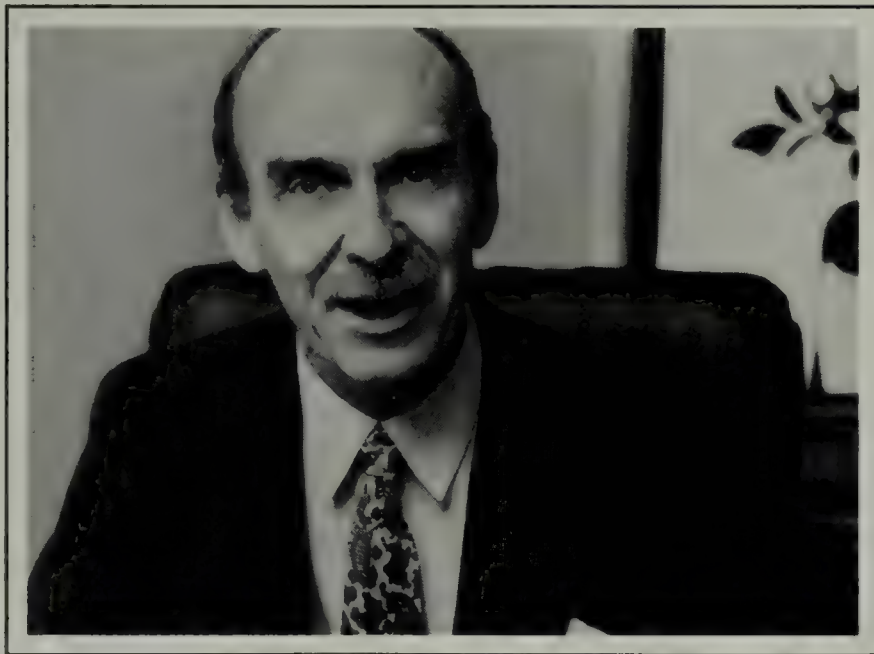
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year bonds. The other 70% is in equities. Half of that is in well-known companies and the rest in young, aggressive ones like Management Technologies (banking software and computers) and Trimedyne (laser catheters for heart surgery). The population is aging, so health care is a growth area no matter what happens to the country or the economy.

And finally, we talked to Allen & Co.'s legendary **Charles Allen Jr.**, 85. The dean of Wall Street players offered no stock tips and refused to have his picture taken. But he did give us some very sound investment advice:

I've been on Wall Street for 60 years. There's no formula. I mean, if you have profits, you're right, but if you don't take them before they go down, you're wrong. Of course, most investors don't get opportunities like I've seen. And some may have access

"There's no formula," says legendary Charles Allen Jr. "I just keep an open mind."

to them, but they wouldn't do them. They are people just as smart or smarter than we are, but their objectives might be different, more conservative. We want to do things that will create employment and things of that sort. I just keep an open mind. We don't restrict ourselves. We'll look at anything.

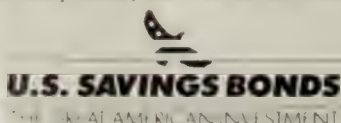
You'll get a lot of safety in stocks if you don't lose your head. If you're not just speculating and you can stay with them, you'll come out ahead. I like all the New York bank stocks and most utilities. They're sound, and as times turn, they'll be real beneficiaries, and you can buy or sell them in volume. Utilities have been hurt by this fear of nuclear reactors, which will be cleared away in time, and they'll get their due.

A lot of the big things are being done off the stock exchange these days. With all these different programs and indexes and options and everything, why, investors don't need to trade in stocks. That really slows down the market. As time goes on, the market will improve even with these things, but remember: You have an election coming up, and that slows everything down, too. Now is a good time just to sit tight until after the election, and you may get a new view of things. No matter who comes in as President, I think we'll go right back to being a constructive nation. ■



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Changes in law over the last two decades have added divorce to the list of big fortunes' natural enemies. The situation—financially as well as emotionally—can be scary but need not be hopeless.

Breaking up is complex to do



By Eric Schmuckler

THE EVOLUTION of divorce law over the last couple of decades has raised the stakes dramatically, to the point where divorce has joined death, taxes and spendthrift heirs as a natural enemy of great wealth. When television writer/producer Norman (*All in the Family*) Lear split from his wife, Frances, in 1985, his reported \$112 million divorce settlement eliminated him from The Forbes Four Hundred. *Star Wars* creator George Lucas' 1983 divorce settlement, said to be in the neighborhood of \$50 million, likewise caused him to fall from the list.

Not that divorce is necessarily fatal to fortunes. Of this year's Forbes Four Hundred, 115 members have divorced and lived to tell the tale. This includes 28 divorced more than once, confirming Samuel Johnson's belief that second marriages are the triumph of hope over experience. Four individuals among The Four Hundred—Mark Goodson, Max Palevsky, Don Reynolds and Anne Burnett Marion—are thrice divorced, and the third divorce of near-billionaire Jack Kent Cooke is pending. Billionaire Edgar Bronfman is said to be embarking on his fourth divorce, from a woman he has divorced once already.

But if divorce is rarely fatal to a great fortune, the process has grown unbelievably complex and expensive. Leading divorce lawyers charge \$400 an hour, and with appraisals, surveillance and the like, the tab to carve a good-size fortune into two moderately good-size fortunes can run into the millions. Divorce law sources say the current Sid and Anne Bass divorce case could cost as much as \$10 million in legal fees and other services.

One result of the divorce revolution of the 1970s (FORBES, Feb. 19, 1979) is that alimony and support payments gave way to settlements based on dividing the marital estate. Nine states, including California and Texas, have community property laws, requiring an equal division of the estate. The other 41 states practice equitable distribution. This splits up the estate "equitably"—not necessarily "equally." In other words, the judge has wide discretion over what's equitable.

The rub in all states comes, of course, in determining what property belongs in the marital estate. Even in community property states, assets held by a spouse before marriage are considered separate property, not subject to being split up.

But the very rich usually get that way because their businesses and oth-

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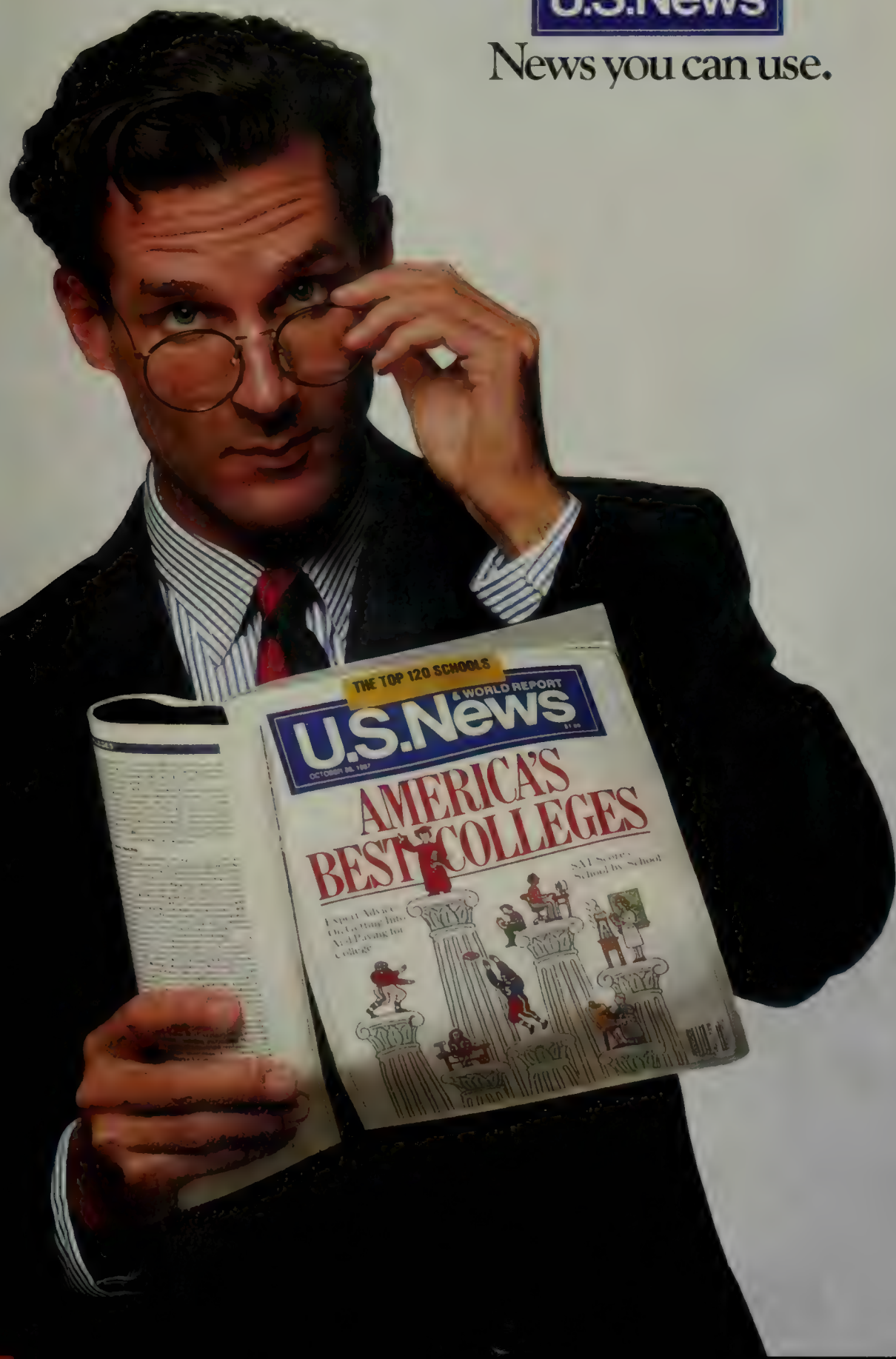
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er assets appreciate and/or throw off heavy income. Here's where things get tricky. If the propertied spouse actively manages an asset, then the asset's runup in value may be "transmuted" into marital property, on the theory that the energies of both spouses went into the appreciation.

It is to minimize transmutation possibilities that Peter Bronstein, a leading New York divorce lawyer, strongly advises his clients to hire outside managers for the money they bring to a marriage. He tells the propertied spouse to set things up separately before they get married. (Wealthy people, he says, usually consult their lawyers before they marry.)

"The best investment adviser in the world costs only 1% of assets annually," says Bronstein. "But the more actively you manage your own money, the more the appreciation of the portfolio can be considered marital property, and you could end up paying a 50% 'advisory fee' in a divorce." Bronstein, whose clients have included chicken king Frank Perdue and builder Lewis Rudin, notes ruefully that self-made centimillionaires have trouble letting go those reins.

The high-stakes shootout between Sid and Anne Bass now unfolding in Fort Worth aims to determine what's marital and what's separate. The Bass brothers started with a grubstake of probably under \$100 million from their father. Sid began to manage it in 1968 at age 25, and helped build it into a \$4 billion fortune. Sid and Anne married in 1965, so she was around for all of the runup.

Family adviser Richard Rainwater actually hatched many of the Bass schemes, but Sid was hardly a passive investor. So the divorce proceedings entail unraveling two decades of Bass investments and raids. What money went into which deal? How much was Sid involved? Were marital assets used as collateral for loans in a separate deal? No wonder the tab for legal and other fees could approach \$10 million. When the dust settles, it's a good bet that billionaire Sid won't have to give up half his pile. But it's also likely that Anne will become the first person on The Four Hundred to make her fortune by divorce.

Especially in divorces where big money is involved, classifying assets as marital or separate is just the first step. Then comes the difficult business of valuation. Holdings in public companies are easy to value, but not so with private businesses, real estate, land, venture capital, stock options, golden parachutes, pension plans.

"I hire investigative accountants to

figure out a business' cash flow," says Melvyn Frumkes, a Miami divorce lawyer who's handled several Four Hundred divorces. "You go through income taxes and checkbooks. You subpoena bank records—there's usually a little puffing going on to get a loan. You look at credit card records, pension and insurance plans, loan agreements, leases, deeds, mortgages, trust documents."

Only when dollar values have been placed upon all marital assets can the pot be divided. Many equitable distribution states look at a host of factors: how each spouse contributed to the marriage, including services as a homemaker; each spouse's economic circumstances; interruption of careers or education; the contribution of one spouse to the career and education of the other; the duration of the marriage; and so on. In community property Texas, appreciation of separately

The wealthy are loath to disclose their true net worth in a prenup. "Rich guys all keep that little list of assets and love to look at it," says lawyer Raoul Felder. "And it hangs them eventually, because the wife finds it."

held property is separate, yet a spouse is entitled to reimbursement for the "time, talent and toil" involved in that appreciation.

It is exceedingly rare that judges split marital estates down the middle. "Judges are conservative people, and they tend to favor the very rich," argues Los Angeles divorce attorney Stuart Walzer. "Judges just feel that \$5 million or \$10 million should be enough [for a spouse]. There's powerful pressure in that direction." Judges, moreover, will rarely cut a company in half, fearful of killing it.

Thus, Norman Lear's \$112 million settlement was exceptional. He founded his sitcom factory well into his 29-year marriage to Frances, who supposedly inspired the character *Maude*. He sold out in 1985, netting \$242 million in cash, so there weren't many opportunities to play valuation games. The case was, as one insider put it, "clean as a whistle."

Most Four Hundred divorces don't end up in court. Considering the expense and exposure involved, most would rather settle or resolve matters privately. Another limiting factor is prenuptial agreements, which most wealthy people insist on. These agreements usually prescribe the amount to be paid in the event of divorce and

are almost always challenged by the less-moneyed spouse.

"Prenups are the name of the game," says Raoul Felder, the dean of big-money divorces (see p. 16). Felder, who is said to have represented various Rockefellers, Fords, Mellons and a Hearst over the years, says full disclosure is the key to drafting an airtight prenup: "You must put in your net worth, and if in doubt, go with the higher figure. Rich guys are loath to do this, even though they all keep that little list of assets, and love to look at it. And it hangs them eventually, because the wife finds it."

When drafting prenuptials, Felder insists that each side has his and her own lawyers. Sometimes he videotapes the signing session, asking the less wealthy spouse, "How do you feel today? Have you thought this over?" And, he says, never pressure your intended into signing a prenup. Peter Bronstein tells of one client, whose bride claims she was pushed into a phone booth on her way to the ceremony—"in her wedding dress yet!"—and given a prenup to sign. Smiles Bronstein: "We settled that one."

The most important element in a prenup is fairness, Bronstein counsels. Jack Kent Cooke is worth close to a billion dollars, but his prenup provided his latest wife, Suzanne Martin Cooke, 31, with a one-time payment of \$100,000 and \$50,000 annually for three years if they divorced in the first year. The couple was barely married a month when the marriage broke up over Suzanne's refusal to abide by a promise to get an abortion. Suzanne had the child, and is now suing for \$15 million. Among other things, this shows the importance of full disclosure in the prenuptial contract (the abortion promise should have been part of the agreement), as well as the necessity for fairness. Bronstein says he would never let a client sign an agreement that appears to be so one-sided.

One of the hottest divorce products now is the postnuptial agreement. Why would anyone already married sign such an agreement? For security, replies Bronstein. "The less-moneyed spouse may give up potential assets down the road for control of some money right away," he says.

"Bombers," as the most aggressive divorce lawyers are sometimes called, emphasize that the best time to divvy up property is when a couple is still together and relatively rational. Once the shouting starts and the bombers' scorched-earth tactics begin, most behavior hinges on resentment, hostility, envy and fear.

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In this regard, a postnup is often a good chance to renegotiate a prenup. "Five million dollars looked like a lot of money when you signed it in '76," says Bronstein, "but now the co-op alone costs that much." Homes, furnishings and art are frequently divided up in a postnup. "The wife has

spent years decorating the house and building a collection. She doesn't want to get half the cash value; she wants assurance she can keep it."

One New York real estate tycoon agreed to divide his portfolio of a dozen buildings by giving four to his wife. But the settlement almost foundered

when she insisted that he manage the buildings for her. With all the complications, one can sympathize with, if not approve of, sly old billionaire H.L. Hunt's approach. The alleged bigamist simply maintained three separate families and kept them secret from one another. ■

Because you asked for it

Every year more than one reader asks us to identify in one place The Forbes Four Hundred members who are currently single. As we went to press, the 54 men and

28 women below were widowed, divorced or otherwise unattached—which is quite different, remember, from available or looking.

Name	Hometown/State	Age	1988 Worth (\$mil)	Name	Hometown/State	Age	1988 Worth (\$mil)
Allen, Paul Gardner	Bellevue, Wash.	35	540	Hunt, Caroline Rose	Dallas, Tex.	65	900
Ansin, Edmund Newton	North Miami, Fla.	52	265	Jacobs, Richard E.	Lakewood, Ohio	63	440
Avery, Alice O'Neill	West Los Angeles, Calif.	71	275	Johnson, Barbara Piasecka	Princeton, N.J.	51	465
Bass, Edward Perry	Fort Worth, Tex.	43	750	Kalmanovitz, Lydia Koerner	Tiburon, Calif.	84	280
Bren, Donald Leroy	Newport Beach, Calif.	56	1,850	Keck, William Myron	Los Angeles, Calif.	46	245
Brown, Harold	Boston, Mass.	63	500	Kerkorian, Kirk	Beverly Hills, Calif.	71	950
Busch, August Anheuser Jr.	St. Louis, Mo.	89	1,100	Koch, David Hamilton	NYC, N.Y.	48	1,100
Butt, Charles C.	San Antonio, Tex.	50	260	Koch, Frederick Robinson	NYC, N.Y.	55	450
Buttner, Jean Bernhard	Westport, Conn.	53	350	Krehbiel, John Hammond Sr.	Downers Grove, Ill.	82	280
Chambers, Anne Cox	Atlanta, Ga.	68	2,250	Kroc, Joan Beverly	La Jolla, Calif.	60	745
Cohn, Seymour	NYC, N.Y.	77	450	Lauder, Estée	NYC, N.Y.	80	450
Collier, Miles Carnes	Naples, Fla.	41	450	Magness, Bob John	Denver, Colo.	64	435
Conover, Catherine Mellon	Washington, D.C.	52	225	Marriott, Alice Sheets	Washington, D.C.	81	245
Cook, Jane Bancroft	Cohasset, Mass.	76	590	Marshall, Barbara Hall	Kansas City, Mo.	65	285
Copley, Helen Kinney	La Jolla, Calif.	65	750	May, Cordelia Scaife	Ligonier, Pa.	60	450
Coulter, Wallace Henry	Hialeah, Fla.	71	500	McCaw, Bruce R.	Seattle, Wash.	42	260
Cox, Edwin Lochridge Sr.	Dallas, Tex.	66	350	McEvoy, Nan Tucker	San Francisco, Calif.	69	350
Crain, Gertrude Ramsay	Chicago, Ill.	77	300	Meyer, August Christopher	Champaign, Ill.	87	375
Davidson, William Morse	Bloomfield Hills, Mich.	66	500	Morgan, Frank Sherman	Kansas City, Mo.	61	300
DeBartolo, Edward John	Youngstown, Ohio	70	1,400	Murdock, David Howard	Bel Air, Calif.	65	900
du Pont, Helena Allaire Crozer	Chesapeake City, Md.	75	260	Packard, David	Los Altos Hills, Calif.	76	2,000
Duchossois, Richard Louis	Barrington Hills, Ill.	67	325	Paley, William S.	NYC, N.Y.	87	440
Duke, Doris	Somerville, N.J.	75	800	Paulson, Allen Eugene	Savannah, Ga.	66	375
Durst, Seymour B.	NYC, N.Y.	75	340	Perenchio, Andrew Jerrold	Bel Air, Calif.	57	390
Ellison, Lawrence J.	Atherton, Calif.	44	330	Reynolds, Donald Worthington	Las Vegas, Nev.	82	1,000
Engelhard, Jane B.	Far Hills, N.J.	70	350	Rosenberg, Ruth Blaustein	Baltimore, Md.	89	225
Evans, James Emmett	Dade City, Fla.	88	400	Rudin, Jack	NYC, N.Y.	64	700
Forbes, Malcolm Stevenson	Far Hills, N.J.	69	[p.208]	Rudin, Lewis	NYC, N.Y.	61	700
Freeman, Mansfield	Greensboro, Vt.	93	240	Sharp, Peter Jay	NYC, N.Y.	58	300
Gates, William Henry III	Seattle, Wash.	32	1,100	Smart, Richard Palmer Kaleioku	Honolulu, Hawaii	75	300
Geffen, David	Malibu, Calif.	45	240	Smith, Vivian Leatherberry	Houston, Tex.	80	400
Goldman, Lillian	NYC, N.Y.	66	400	Sulzberger, Iphigene Ochs	NYC, N.Y.	96	225
Goodson, Mark Les	NYC, N.Y.	73	375	Taper, Sydney Mark	Los Angeles, Calif.	87	325
Graham, Katharine	Washington, D.C.	71	600	Tyson, Barbara	Fayetteville, Ark.	39	265
Green, Dorothy	Beverly Hills, Calif.	80	240	Ueltschi, Albert Lee	Greenwich, Conn.	71	300
Griffin, Mervyn Edward	Beverly Hills, Calif.	63	300	Walton, James Lawrence	Bentonville, Ark.	65	320
Gruss, Joseph S.	NYC, N.Y.	85	420	Wexner, Leslie Herbert	Columbus, Ohio	51	1,000
Haas, Fritz Otto	Amble, N.Y.	72	370	Whitney, Betsey Roosevelt	Manhasset, N.Y.	80	300
Hearst, David Whitmire Jr.	Los Angeles, Calif.	44	370	Woodner, Ian	NYC, N.Y.	85	330
Hearst, George Randolph Jr.	Los Angeles, Calif.	61	375	Ziff, William Bernard Jr.	Manalapan, Fla.	57	1,000
Hobby, Oveta Culp	Houston, Tex.	83	650	Zuckerman, Mortimer Benjamin	NYC, N.Y.	51	250

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Which business and location put more people on The Forbes Four Hundred than any other, and still offers 77,079 opportunities to get started?

Go Midtown, young man

by John Anderson

TWENTY-SEVEN MEMBERS of The Forbes Four Hundred and 8 of America's 100 richest families have their wealth rooted in New York City real estate, more than any other area in the country. The total net worth of their holdings in and around the Big (and lucrative) Apple surpasses \$17 billion, almost 10% of the combined wealth of all members of The Forbes Four Hundred.

Where are their holdings concen-

trated? Some are far uptown or downtown. Some are out in the boroughs—Brooklyn, Queens, Staten Island and the Bronx. But the bulk of the holdings are in hundreds of commercial buildings in midtown Manhattan, and in apartment buildings on the Upper East Side. Included are some of the choicest morsels among the 77,079 real estate parcels on the island of Manhattan.

The midtown Manhattan map on page 371 shows most of the Big Apple holdings of members of The Forbes

Four Hundred. Among these holdings are not a few New York City landmarks. Harry Helmsley (who with his wife, Leona, is under indictment for federal and state income tax evasion) and Harry's longtime, publicity-shy partner, Larry Wien, own pieces of what is perhaps New York's most famous attraction, the Empire State Building. They bought the building from Colonel Henry Crown, the father of Chicago billionaire Lester Crown. The you-know-who family still partly owns Rockefeller Center, which includes Radio City Music Hall, showplace for entertainers from Bill Cosby to Frank Sinatra. But the Rockefellers gave the public a chance to buy into this parcel when they formed the \$1.3 billion Rockefeller Center Properties real estate investment trust three years ago and took it public (recent price, 19¼ a share).

If you stay at the posh Carlyle Hotel, your landlord will be Peter Sharp. If you choose the Parker Meridien, it will be Jack Parker. A medium-budget Doral suit you better? You'll be paying your bill to Howard Kaskel.

Several weeks ago Donald Trump paid one of the highest per-room prices ever for a hotel property when he bought the Plaza Hotel from the Bass Group. Trump Tower, a landmark building primarily in the sense

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Give a business the right climate and watch it thrive. Plants grow, profits bloom, and the outlook is coming up roses. What makes for such an ideal climate? A climate whose warmth has attracted the likes of GM for its high-tech truck assembly plant, Magnavox, GE, ITT, and many smaller companies?

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The Right whale filters food from the water through its baleen - a series of up to 400 fringed whalebone plates.

The contrast between the Right whale's size and its prey is quite amazing, for this species feeds on tiny crustaceans. Obviously this giant would have a hard life if it had to snatch them a few at a time.

But nature has equipped the whale with a sophisticated filter system. As it glides through a school of krill, it simply takes in a mouthful, closes its jaws and expels the water. The quantity of small creatures trapped in the baleen makes a decent meal.

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SCHOTT

Nobody knows more about glass

that Trump's name is on it, rises just around the corner. Throw in his St. Moritz Hotel and two Central Park South residential properties just west of the Plaza, and Trump owns five buildings within a four-block radius. Market value: over \$1 billion. Where else but New York?

Outsiders want in and are getting in. Dallas superdeveloper Trammell Crow joined the fray this year, purchasing J.C. Penney's old New York City headquarters with a Japanese partner. Then there's the Jack Kent Cooke building. Sorry, we mean the Chrysler Building, just across the avenue from Grand Central Terminal and from the Grand Hyatt. Trump owns half of the Grand Hyatt, and he might part with it for \$225 million or so.

Sheldon Solow is another local boy made good. Besides a few residential projects, he owns just one major building. But that building is 9 West 57th Street. Solow built the 1.4-million-square-foot Avon Building, which he now modestly calls the Solow Building, with its giant red "9" out front, in 1972. Today FORBES estimates that the sloping, 50-story office tower is worth at least \$500 million. Such is New York real estate: A single building can catapult someone into the rarefied air of The Forbes Four Hundred.

Why? Mostly because of the stupendous runup in real estate values after New York emerged from its infamous fiscal crisis of 1975. In the late 1970s and early 1980s, values tripled. With typical leverage, equity could go up tenfold. Today, yearly rent in midtown Manhattan runs \$35 to \$50 per square foot for office space; some rents reach \$65 or more. Retail rents run as high as \$400 and \$500 a square foot along the best parts of Madison Avenue. Average office rents in other metropolitan areas rarely make it past \$25, retailers' rents, \$100.

But don't hope to hit The Forbes Four Hundred overnight. New York property comes with drawbacks as well as promise. Property taxes, for example, are among the highest in the country, and really hit the new owner. This is because assessments are done every year, on a percentage of the last sales price—so a building owned before the big runup now has a competitive edge over a building purchased at today's prices. Electricity rates are also among the highest in the country, as are service costs—even the doormen have a union. And if you're going to build, remember that the Mafia has been known to be in the cement business; cement prices are

400 turf

This map of the most expensive concentration of real estate in the country shows over 300 of the most valuable Manhattan properties owned by members of The Forbes Four Hundred, nearly 5% of whom are New York real estate operators. Shown here are their midtown properties. Many more are uptown, downtown and in the boroughs.



Laure Grace

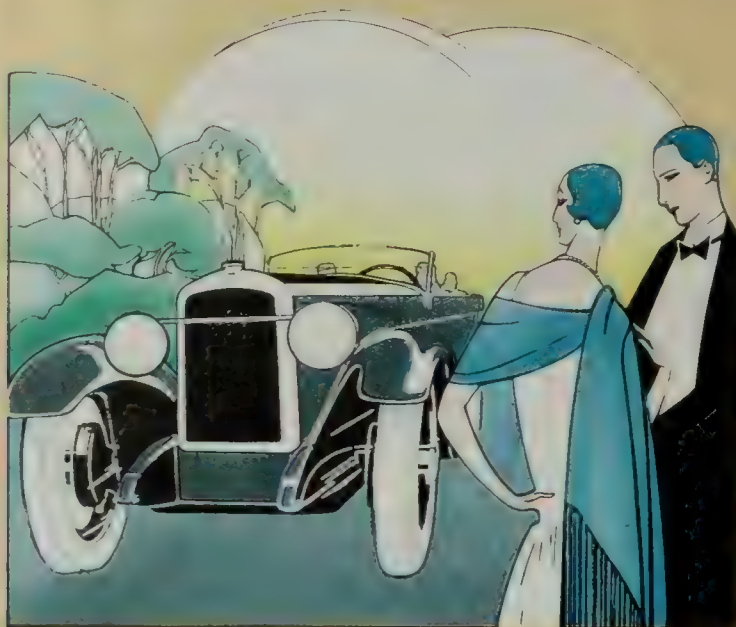
some 60% higher than rates just outside the city. Meanwhile, those sky-high rents have been softening around the edges since late 1983, and vacancies have edged up. It's a tough business, with no guarantees.

These Forbes Four Hundred men (and one woman, Lillian Goldman, the widow of late billionaire Sol Goldman) are a strange mix of old money and new blood. When it comes to real estate, most of them have one philosophy: buy and hold. The Durst, Rudin and Fisher clans are in their second and third generations. Indeed, keeping it in the family is a favorite strategy. More than half the New York landlords on our list owe their inclusion to far-sighted ancestors who wondered at the strange looming towers of their new home as they arrived on the boat, then plunged into cold-water railroad

flats to scratch out a living. But they didn't forget the towers. They, or their sons, bought Manhattan property 40, 50, 60 years ago. Even Trump is no overnight success. He started in Manhattan in the mid-1970s, but his father, Fred, built a fortune in Queens and Brooklyn apartments, starting shortly after World War II.

Time and patience, said Field Marshal Kutuzov, patience and time. That's what seems to get the best results in the Big Apple, whether, like Mortimer Zuckerman, you're putting together a building site on Columbus Circle in the early Eighties, or you're looking for a tenant, as is Larry Silverstein with his new, largely empty 7 World Trade Center.

Kutuzov? He's mainly remembered for defeating Napoleon when the latter invaded Russia. ■



THE BEST OF EVERYTHING

by Michael Alexander

Americans, a show-me, practical people, have always believed in a simple formula: value for money. Even our folklore has the recurring theme: you get what you pay for. Early in life we are taught to do our best, and we do so with the understanding that we'll reap the rewards of receiving the best in return.

The best always equals quality and quality often implies the best. The inevitable follow-through: Why not go after the best?

If money talks, then quality speaks—softly, self-confidently, authoritatively. Whether quality of materials, quality of design and workmanship, quality of performance, reliability or dependability, quality implies that a product is guaranteed to measure up to its manufacturer's or vendor's claims. Succinctly put: Good things cost less than bad ones—they always have, they always will. Quality never comes cheap, but ultimately costs a lot less. The slogan, "there's no substitute for quality" could easily be modified to meet today's imperative: there's no substitute for the best.

This 'business credo' appeals to the people who make quality items and provide quality services. By providing with the best they're capable of producing, they salute our good taste and our capacity to choose between the first rate and the merely ordinary.

Any retailer would confirm that top of

the line merchandise moves out in a steady flow, because customers know a good thing when they see it, and customers are willing to pay the price. Meanwhile the lower-end merchandise seems to wind up in overstuffed inventories. Quality always sells.

On these pages are messages from some purveyors of the best. They have all earned their reputations where it counts: by furnishing fourstar quality performance.

Why settle for less?

German Reliability

Everyone who has ever flown Lufthansa has praised it, literally, to the skies. The internationally applauded carrier is famous for its dependability, punctuality and meticulous service.

First class service is what every traveler expects: elegant ambiance, superb cuisine, faultless service, sleeperette seating that is the last word in comfort. And no traveler is short-changed in Business Class, either — where there are ergonomically engineered seats that cradle the passenger, ample leg room, and well-prepared and eminently satisfying meals.

Leave it to Lufthansa to come forth with an inducement to passengers, especially frequent fliers, that the airline calls *etc*—the extras that count. And what's more, the *etc* program includes: "Quality Guarantees," which means that

the passenger is compensated if Lufthansa fails to keep its pledge; upgrade to first class on some connecting flights to Lufthansa's U.S. gateways; bonus mileage benefits for individuals and their companies; and Lufthansa's Frequent Traveler Service — preferential treatment in every way it counts.

Ready for a Corporate Mileage Depend Plan? Lufthansa has it, and it offers mileage credits to the passenger's company as well as those he earns for personal use. These credits mount up to travel awards — consider them as business bonuses — as well as employee incentive benefits or whatever the company prefers. Among the awards are free tickets on Lufthansa and free upgraded accommodations and car rentals.

When you think of Lufthansa, it's the three C's that count — extra courtesies, conveniences and comforts.



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THE TRIUMPHS OF CIGARETTE RACING TEAM

Cigarette Racing Team, the premier name in blue water power boats, continues to make news and make moves as number one in its field during its 20th anniversary year:

- Only last month, Cigarette was honored by the U.S. Department of Commerce when it was selected as one of only 20 companies to participate in an economic trade mission to Japan, headed by the Secretary of Commerce. The Commerce Department selected only companies that have a "world class" reputation for producing high-quality goods. Robert B. Gowens, president of the Miami Beach-based Cigarette Racing Team, personally attended the conference, "Market Japan—with America's Best," and returned with a boat full of ideas of how to sell his classic powerboats to this thriving market.

- Cigarette Racing Team added another honor to its long list of awards and citations when its 38' *Top Gun* was selected as the Race Manager's boat for the 1988 America's Cup competition.

- The 35' *Cafe Racer* will be dramatically visible when the movie *License Revoked* is soon released—it was selected as James Bond's personal boat.

- The U.S. Customs Service has selected Cigarette Racing Team to build 12 35' boats for their crucial drug interdiction program.

- *Boating* magazine chose Cigarette's 31' *Bullet* as one of the top 10 boats in the world in 1987.

- *Boating* magazine also selected two of Cigarette's design features as two of the



31' *Bullet*®



35' *Cafe Racer*®—the boat used in James Bond's new movie "License Revoked."

top 10 in the world.

- And to cap it all, *Boating* recently selected Bob Gowens as one of the top 10 personalities in the boating world.

The Cigarette story begins in 1969, when the new Cigarette Racing Team put on the market a 36-foot beauty that

dramatically caught the attention of the powerboat racing world and immediately put Cigarette at the top of the class. The new hull proved to be an instant winner. Powerfully racing past its closest competitors the new hulls racked up 19 major offshore victories—an impressive



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record that soon had the powerboat world talking.

Winning one competition after another, the Cigarette powerboats were soon winning friends, admirers and, most important, buyers. Fast boats in blue waters—the Cigarette image was solidly formed and enthusiastically accepted, almost programmed from the start to be the best of their kind. Once built, Cigarettes, whether new or used, are always in operation—they never sit still. Cigarette boats built almost 20 years ago are still functioning well. Powerboat fanciers are more likely to snap up a used Cigarette than anything produced by the competition—that's a fact, not an idle boast.

The Cigarette Racing Team just grew and grew, producing hulls from sleek 20-foot racers to the superfast 38-foot performance boats that draw gasps of admiration from blue water racing connoisseurs.

In 1984, the Cigarette Racing Team entered a new phase of its illustrious history when Jeffrey I. Friedman, a Cleveland, Ohio businessman, developer and entrepreneur, acquired the company. Friedman hired Bob Gowens, a business troubleshooter who specialized in helping international companies transform their balance sheets from red to black. Gowens soon put together a Grade-A sales and marketing team and had Cigarette humming at a pace never seen before.

On the market came the sleek, handsome 35-foot model called *Cafe Racer* which became the talk of the powerboating world. And then came the much improved 38-foot model called *Top Gun*, with its rough-water hull that many connoisseurs consider the best of its kind. Sales went up, up, up. And Cigarette, never content to sit idle in the water, presented another beauty—the 31-foot *Bullet* which instantly became competitive with boats of the same dimension. Cigarette had arrived—and with a mighty splash—in the fast boat market with price tags of six figures.

Looking back as well as forward, Friedman has this to say about his illustrious Cigarette Racing Team:

"Cigarette is more than a name, and even more than a tradition. It's a legend; and what we've done is polish it up, rev it up, and give it full throttle by setting the standards by which others are compared.

"We're building an iconic product for people with an uncompromising sense of quality, sophistication and style, and we're doing it very, very successfully."



Godiva's new chocolate truffles: sinfully rich and satisfying. The Christmas selection has something for every palate and purse.

Chocolate Elegance

Godiva Chocolatier, Inc.—some call it Belgium's gold standard—is always there with the goodies. This year Godiva has a treat in store: it is introducing "Truffles Exquis"—exquisite truffles will do as an easy translation. All-chocolate, it comes in 10 decadently rich and tantalizing flavors, among them: hazelnut praline, raspberry, soft butterscotch caramel and mandarin orange. Thomas Fey, president of Godiva Chocolatier, Inc. says: "'Truffles Exquis' are designed to complement Godiva's existing 'Grandes Truffles' collection, the generously sized truffles introduced a few years ago. As a classic European confection, truffles have become a very important part of our collection."

The chocolate truffles are strictly in line with the standards that founding father Joseph Draps laid down for Godiva Chocolates in 1900. His formula—rich chocolate flavor, no artificial colors or flavors, and unparalleled smoothness—is still in operation today. With his remarkable eye for detail, Draps also set the standard for its elegant, European shell-molded design and distinctive packaging. Today the golden Godiva box is a symbol for the ultimate luxury in the confectioner's art, and for the best of Belgium offered to the world.

The best of it all not excluding the new line of chocolate truffles—is that it's not too soon to think about for Christmas giving (and receiving). Godiva has a stocking- and tree-full of lovely suggestions to make the chocolate fancier toothily celebrate, including their famed ballotins.

But don't forget the truffles.

The Alpine Summit of Penmanship

What do Henry Kissinger, columnist George Will, a prime ministers Margaret Thatcher, Helmut Kohl, a Yasuhiro Nakasone have in common? Easy. They have all used the inimitable Montblanc pen to write their signature on important documents. Even James Bond has used a special Montblanc foil his enemies; instead of ink, however, his contained acid.

Montblanc produces the world's most luxurious collection of crafted writing instruments, the ultimate in fine penmanship. Montblanc offers fountain pens, ballpoints, rollerballs and fineline pencils in many distinctive styles, superb finish and price ranges.

Montblanc began modestly in Hamburg, West Germany, in 1908, where a banker, a stationer and an engineer combined to produce an exclusive fountain pen. Two years later the name Montblanc was adopted, inspired by the pen itself—considered the pinnacle of writing instruments—and by Mont Blanc, which has the tallest peak in the Alps. The white, rounded cap of the Montblanc fountain pen was transformed into a six-pointed star that would represent the snow-capped summit of the mountain.

The ultimate in Montblanc pens, the Meisterstück, was born in 1924. Now, then, the world-renowned Montblanc star is hand-etched in the 14 karat gold nib, as is the number 4810—the height of Mont Blanc in meters.

The Meisterstück collection still carries its timeless design: a glossy black cigarette-shaped body with gold-plated fittings and a rounded cap with the distinctive Mont Blanc logo. The Meisterstück 149, the largest pen, is luxury itself; the slightly slimmer Meisterstück probably the most popular pen.



The Montblanc Meisterstück group, the cornerstone of the Montblanc collection.



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And if you want to go all out, Montblanc will sell you a fountain pen stand trimmed with a gold-plated brass plaque that you can embellish with your own engraving. And to get at your ink supply, there is a lead crystal inkwell, a replica of an English antique from the reign of Queen Victoria, complete with hinged brass lid.

Think ink.

Turbocharger

Some people are simply not content to rest on their laurels. Take Volvo, for example. Car buffs thought Volvo had ascended the heights of engineering with its luxurious 780, the Swedish car with the Italian design. Not so. Volvo has now come up with the 780 Turbo, "a variation on a theme of greatness," it is proudly claimed, since the new gem offers all the original's qualities with an added, specially modified turbocharged engine "for an extra measure of unbridled performance."

It's an in-line, 2.3 litre, 175-horsepower engine, with an air-to-air intercooler and a water-cooled turbo, a state-of-the-art power plant and the latest in turbocharging technology.

Once again Volvo has teamed up with Turin's Carrozzeria Bertone to produce this latest model. With the 780 Turbo, potential buyers can look for the same features that marked its predecessor,

among them: handcrafted quality found in the signature birch burl accents in the dash and door panels; sumptuous leather with stylistically matched tone; the rich finish of the wood; heated and adjustable bucket seats; visible and well-positioned instrumentation and driver controls; a climate control system that can change the environment 6.5 times per minute; the latest in AM/FM stereo equipment; cruise control; a rear window demister; and a power moonroof.

Nuccio Bertone, the grand master of automobile styling, says: "My long experience in the design and manufacturing of high-quality cars permits me to say that the Volvo 780 is the best product we've ever made."

And this from the man whose company gave the world such masterpieces as the 1954 Alfa Romeo Giulietta Spirit, the Ferrari Dino 308 GT4 and the Lamborghini Countach.

Triple Jets

The height of luxury has to be flying in a well-appointed jet that carries a minimum of passengers yet provides a maximum of ease, comfort, dependability and safety. In other words, everything that is offered by the famed FalconJet, especially its nifty Falcon 50 and Falcon 900. The Mercedes Benz of business jets, FalconJet is proudly calling attention, during this, its



The Falcon 900 soars into the wild blue yonder, the very model of business jet travel: ease and long-range dependability and reliability.

silver anniversary year, to the building of more than 1000 Falcons for customers in 60 countries—corporations, heads of state, government and military organizations, private individuals.

FalconJet claims its planes are the best that money can buy—not an overmodest claim when one considers that the aviation pros lavishly praise Falcon for flying qualities and cockpit layout and equipment, for aerodynamics and safety features, for high reliability and ease of maintenance. In addition, business executives and the pros agree on the Falcon's excellent engineering and construction.

The two jets differ somewhat in that the Falcon 900 is a much larger, wide-body aircraft with a longer range. The 900's 4800 statute-mile range means that one can practically fly their luxury non-stop from Minneapolis to Paris, Honolulu, and within range of Tokyo. The 900 is also designed to perform in those small airports that are often the destination of busy executives and their staffs (the 900 can carry 12-15 passengers, the 50 can seat 9 passengers).

Falcon owners are Falcon loyalists. Almost 70% of all Falcon sales are made to current or previous Falcon operators. And try to find a Falcon 50 in the used aircraft market. They're as scarce as a proverbial hen's teeth. And if a Falcon 50 does become available, it will cost the buyer more than the original purchase price. You'll look in vain for a used 900—they're just too new on the market for any resale.

Customer loyalty, credibility, dependability: little wonder that with Falcon, things are always looking up, up and up.



Michael Alexander is a freelance writer based in New York who appreciates the best of everything.



Volvo 780 Turbo: A Swedish-Italian collaboration of impeccable design and engineering.

ART.



STATE OF THE ART.

The refined shape of the Volvo 780 was carefully arrived at by Bertone, Italy's leading automotive designer.

But since the turbocharged 780 was engineered in Sweden, the attraction goes well beyond sophisticated looks.



Consider, for example, the Multi-link independent rear suspension. Unlike more conventional systems, Multi-link allows each tire to individually adjust to road conditions. So when you encounter uneven road surfaces only one tire, instead of four, is affected. The result is a suspension system that puts comfort *and* handling under one roof.

As one would expect, a car of the 780's class is equipped with a driver's-side Supplemental Restraint System (SRS). When used in conjunction with our three-point seat belt, SRS is designed

to increase protection to the driver in certain types of accidents.

For additional safety, the Volvo 780 is equipped with anti-lock braking (ABS) which continuously regulates the distribution of braking power. Consequently, ABS allows you to brake with less chance of skidding or losing steering control. And that helps take the panic out of panic stops.

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Personal Affairs

An old fishing camp on Vancouver Island, handsomely refurbished, is the place to go if you're after big salmon, or some of this continent's most beautiful scenery.

"Fish on!"

By Lawrence Minard

IT'S 5:30 A.M. and there I am again, for the third luckless morning in a row, sleep-deprived and huddled on the wet aft seat of a narrow rowboat, line in water and thumb on reel. Richie Enns, my guide and best potential connection to a big salmon, rows us

back and forth a few hundred yards off the dark shoreline of Campbell River, in Canada's British Columbia.

Enns and I are part of a flotilla of perhaps 30 similar boats rowing the early morning slack tide. Every fisherman and fisherwoman on the water has a common goal: to catch a tyee, the Indian name for a chinook or king

salmon (smaller salmon are called silvers or cohos). By today's conventions, a salmon 30 pounds or larger is a tyee, and catching one (and paying C\$15) qualifies the fisherman for membership in Campbell River's exclusive Tyee Club of British Columbia. The club's rules are strict. You must catch your tyee on a single hook using a plug or a spoon—no live bait—and without using a motor to troll. Founded in 1924, the club currently has about 2,000 registered members, including 70 new members this year.

By 6 o'clock the sun begins to rise over British Columbia's stunning Coast Mountains. All around us big fish roll and jump. Nearby, the scream of a reel and outrushing line indicates that a fish has struck and is running. "Fish on!" yells a guide, warning other fishermen to reel up their lines so that his client's fish won't tangle them and escape.

A few minutes later, my luck changes. A fish strikes my spoon and the top 2 feet of my pole are pulled into the water before I jerk the pole back in an effort to set the hook. Eleven jumps and 45 minutes later (and after much encouragement from Richie), a glittering silver tyee lies flopping in the bottom of our boat: all 33½ pounds of him.

Suddenly, there's no mystery at all about why people choose fishing over



Early morning rowing for tyees off Campbell River, British Columbia

Photography by Andras Dancs/North Light Images Ltd

The Tyee Club's rules are strict: single hooks, no live bait, land your fish in your own boat.

sleeping.

Campbell River, a forest products and fishing town of 17,000, is situated on the eastern coast of Vancouver Island, 165 miles north of Victoria. It calls itself "the salmon fishing capital of the world," and there is more than local hucksterism behind the billing. Around Campbell River, the cold, clear salt water of the inland passage between Seattle and Alaska teems with the 4-to-7-inch herring that big salmon feed on. As a result, the relatively compact area becomes a kind of bottleneck in the migratory pattern of salmon moving between the Gulf of Alaska, to the north, and the large salmon river systems—including the Columbia and the Fraser rivers—to the south and east.

Increasing the fisherman's chances, the Campbell River itself is a short river. Because it takes less than a day for the salmon to swim to their spawning grounds from the Campbell's mouth, they tend to stay longer near the mouth of the river, in the salt water where they feel comfortable, before beginning their last big swim up the river. So sport fishermen row near the river's mouth at slack tide—



Dolphins Resort guests, owner/guide Clint Cameron and Jessie
Encyclopedic knowledge of local hunting and fishing.

in the early morning, and again in the late afternoon. When they're not rowing, they'll be using live bait and fishing from motor boats at neighboring spots.

It goes without saying that not everybody catches a tyee. Some fishermen have been trying for years to join the Tyee Club, in vain. But there are so many fish around Campbell River that the odds, by fishing standards, are pretty good for the fisherman. Between the end of July and mid-September, for example, 115 tyees were registered at the Tyee Club. The biggest registered tyee this season weighed 52 pounds.

Note, too, that not included in that Tyee Club count are a large number of 20-to-30-pound salmon, as well as several tyees caught outside the club's narrow rules. On Aug. 31, for example, a fisherman hooked a 48½-pound salmon. A long fight ensued, and the fish was ultimately netted by a helpful neighboring boat. Too bad, because according to the Tyee Club rules, a fisherman must land his fish in his own boat. The 48½-pounder was disqualified.

British Columbia derives thousands of jobs from sportfishing and other aspects of tourism. Once primarily a logging town, Campbell River today offers the sportfisher a wide variety of lodgings (see box, p. 384). All can supply guides, boats and gear, but check carefully as to what each competing package includes. Bait? Eight hours with a guide, or four? And so on.

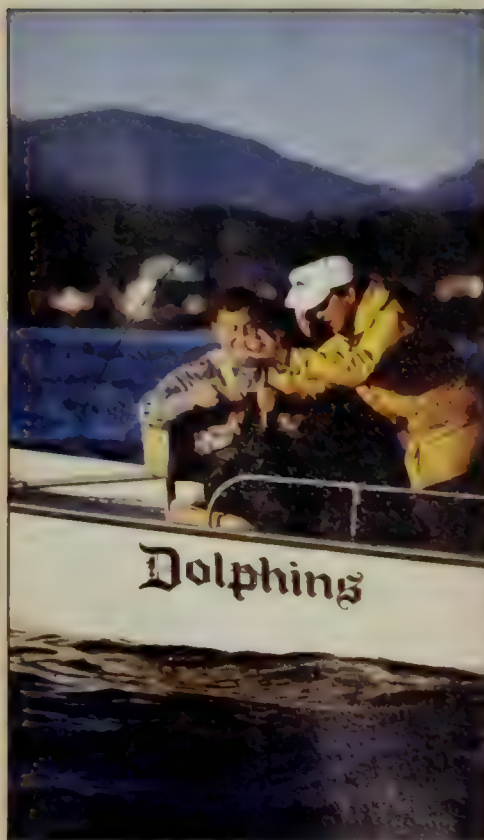
In this writer's admittedly subjective opinion, the best place for sportsmen to stay is the venerable Dolphins Resort (tel. 604-287-3066). A few years ago San Francisco businessman Michael Whitman, Edgar Kaiser II from Vancouver and Seattle's Jim Allison, Michael Malone, Paul Skinner

and John McCaw (the latter's interest in McCaw Cellular Communications puts him in The Forbes Four Hundred) bought a 30% interest in the Dolphins. They put up the capital to finance extensive improvements of the Dolphins' 14 rustic/luxurious cabins, and to upgrade the resort's fleet of Boston Whalers.

What makes the Dolphins special, however, is its majority owners and managers, Don Cameron and his sons Clint, 33, and Greg, 26. The Cameron clan's wives are also active in the business. Avid

sportsmen and naturalists with encyclopedic knowledge of British Columbia fishing and hunting, the Camerons are enthusiastic guides who also have assembled a constellation of young supporting guides who seem to know where the big fish are likely to be, and how to hook and land them.

Unless you know the locale well, incidentally, you'll need a guide. The local waters are cold (around 45 degrees Fahrenheit in August) and unforgiving. In nearby Seymour Narrows, where a lot of the big fish are caught, tide changes create 12-knot currents and treacherous whirlpools that can measure 30 feet and more

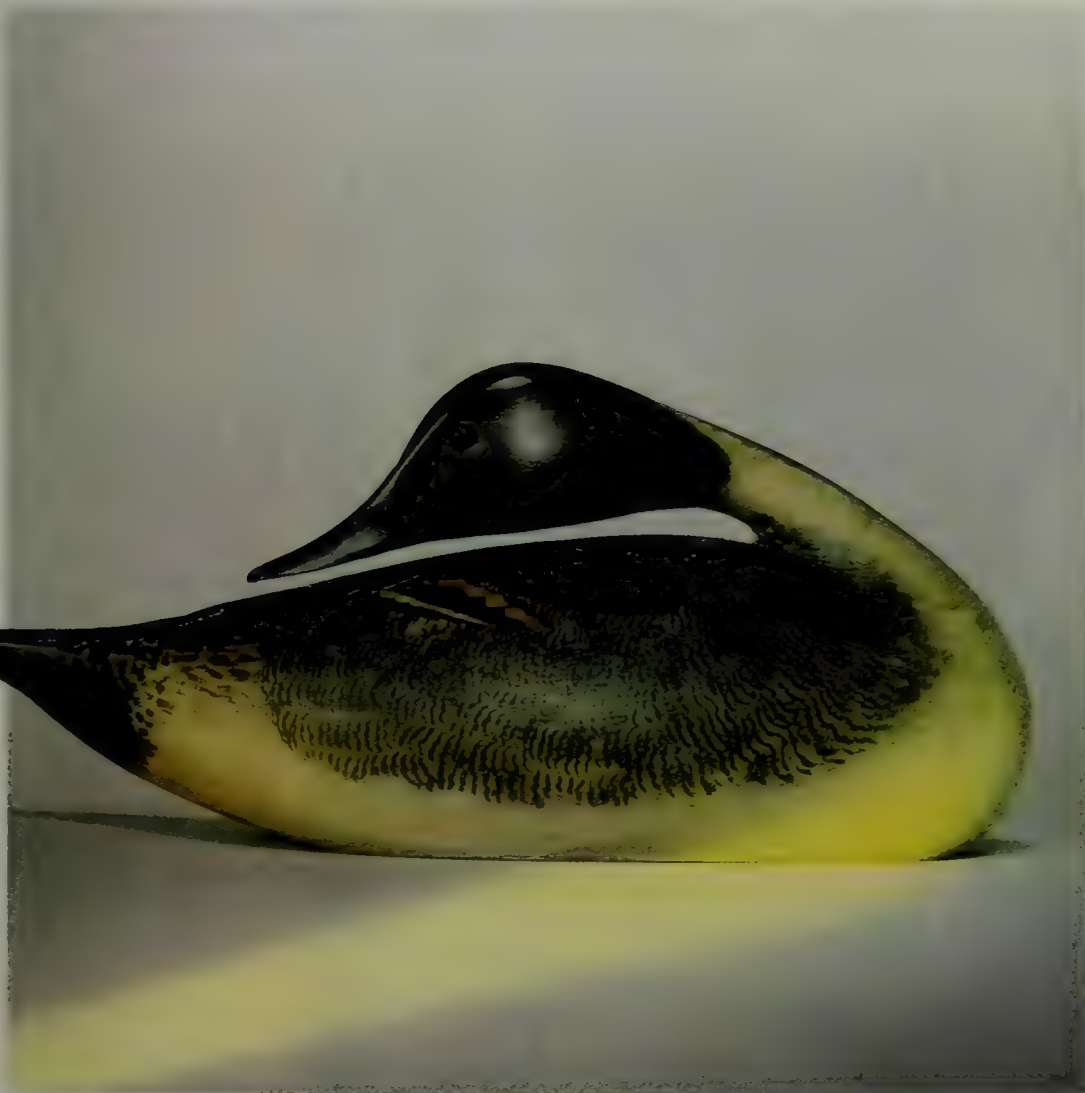


Fisherman Oz Peddle
Advice from his guide . . .



. . . helps land a 50-pound tyee.

About investments and other things.



For expert advice on valuable decoy ducks (the one above was auctioned for US\$ 319,000 on July 5, 1986), the top authority is Frank M. Schmidt of Richard W. Oliver's Gallery, Kennebunk, Maine, USA.

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across. This is no place for unguided amateurs.

The Camerons offer a very high level of labor-intensive service for prices that are only a little above the Campbell River norm. Helping to keep prices reasonable is the relatively weak Canadian dollar, recently trading at C\$1 = U.S.\$0.82. The Dolphins' basic daily rate is C\$240 (\$197) per person, based on double occupancy. That includes a cabin with kitchen, a boat and eight hours of fishing with a

guide, the packaging of the fish you get, and everything you'll need to catch the fish except a fishing license (C\$14 for a four-day license). If you want one of the two large and super-luxurious owners' cabins, the rate jumps to C\$285/person. The Camerons will stock your kitchen for your arrival. Or the Dolphins' excellent cooks, Pat and Alana, will prepare meals in your cabin, for an additional C\$40/person per day. Bring your own booze, and don't forget to tip your

cook and guide. Twenty dollars per person per day is appropriate.

Fishing is permitted all year in British Columbia. But unless you're the rugged type, Vancouver Island's December-to-March weather is best avoided. The season really begins in late March, when the Camerons guide Dolphins guests to local streams to fly-fish for trout and steelhead. Salmon fishing gets under way in June. The peak salmon season stretches from late July through mid-September, when the weather is often open-shirt warm, once the sun is up.

In mediating the fight for fish between the commercial fishermen and the sportfishers, the Canadian government has recently imposed new limits on the sportsmen's catch. The limit is two tyees per day per fisherman, and eight per season.

But don't worry about being bored if you limit out. The Camerons enjoy driving guests inland to local streams for trout fly-fishing. For those who don't know how to fly-fish and have considered attending a fly-fishing school (see *Personal Affairs*, June 21, 1982), this is a good and economical way to learn; the Camerons charge nothing for tuition.

Or they'll hire a helicopter and fly three guests and a guide for a day of trout and steelheading up to the remote rivers that flow into Bute Inlet, Knight Inlet and some of the other fjords that make southwestern British Columbia one of the most dramatically beautiful places in the world. Cost to helifish: the Dolphins' daily rate, plus two hours of helicopter flying time at C\$600/hour.

Or you might prefer simply to down your pole and take in the powerful beauty of the area. The water is alive with sea lions and seals, which feed on the salmon, and rich in pods of orca whales, which eat seals and salmon. Guides will also take you fishing for rock cod. You can feed the cod to the many bald eagles that nest around Campbell River.

Warning: The Dolphins' reputation is spreading. A sign on a local bait boat proclaims, "The worst day of fishing is better than the best day of working," and companies are now trying to get the best of both worlds by renting out the resort for meetings and customer entertainment. In late August McCaw Cellular brought in its investment bankers; in early September IBM Canada took over the Dolphins (no corporate discounts are available). There are only 48 beds, so early reservations are a must, especially during the peak July-to-September season. ■

Campbell River guide

Among the many other fishing-oriented lodgings in Campbell River:

Painter's Lodge (604-286-1102). Started in 1922 and completely rebuilt after burning to the ground in 1985. Two bars, restaurant. Double occupancy rates C\$89-\$224 (room only). Guide and boat: C\$42/hour, four-hour minimum. Fishing package: room and six hours' guided fishing, C\$169/person. Part of Oak Bay Marine Group (800-663-7090), which operates five salmon-fishing tours in British Columbia.

The Coast Discovery Inn Marina/Sportfish Centre (604-287-7155). Restaurant, bar, 93 rooms. Double oc-

cupancy packages, two nights/12 hours' fishing for around C\$432/person.

April Point Lodge and Fishing Resort (604-285-2222). On Quadra Island, ferry access from Campbell River. Beautiful setting. Restaurant, bar. Guest suites at C\$160 for two people. Boat and guide: C\$45/hour, four-hour minimum.

Campbell River is a 3½-to-4-hour drive from Victoria, B.C. Daily air service from Vancouver. For additional information contact: Campbell River and District Chamber of Commerce, P.O. Box 400, Campbell River, B.C. V9W 5B6 (604-286-0764).—L.M.



Fish stories

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Personal Affairs

Edited by William G. Flanagan

Transportation and communications advances (if not politics) have made it more feasible for people of merely upper-middle-class means to own their own islands.

Personal islands in the sun

By Michael Fritz

SOME OF MY FRIENDS collected paintings of beautiful women and put them in museums with their names underneath," muses 91-year-old Thomas Cabot, chairman emeritus of Cabot Corp. "I bought islands because they were cheap, pretty, and they always went up in value."

Cabot was by no means alone in his appreciation of islands. Many wealthy families have possessed their own island getaways—the Bernhards, Briggses, Goulds, Johnsons, Pulitzers, Reynoldses, Rockefellers, Turners and Wrigleys (the latter once owned Catalina Island, off Long Beach, Calif.). But thanks to advances in transportation and communications, people of merely upper-middle-class means can now afford to own their own islands—provided they are willing to shop off the beaten track.

Of course, they're not making islands any more, as the real estate people would say, and they do occasionally disappear or become denuded through storms. So, at any one time there are probably no more than 300 saltwater islands offered for sale worldwide. Most can be bought for between \$100,000 and \$300,000, says island broker Farhad Vladi of Hamburg, West Germany. In North America, for example, you can find a wide assortment along Nova Scotia's South Shore from Liscomb Harbor to Yarmouth, many priced under \$150,000 (FORBES, May 30).

Expect to pay at least five to ten times more for similar-size isles

among more established enclaves. These include the San Juan and Gulf Islands between Vancouver, B.C. and Seattle; New York's Thousand Islands region; or along the eastern U.S. coast from Maine to Florida.

A broad assortment of flat, sandy coral atolls in the Bahamas are for sale at prices ranging from \$100,000 to \$10 million. Vandalism, corruption and a thriving illegal drug trade have dampened a lot of American interest in Bahamian island properties lately, but the English and Germans remain avid buyers.

Island offerings off the coasts of France, Spain and Italy remain slim and, of course, expensive, with few listings under \$2 million. A 144-acre rocky Spanish isle is listed for \$4.5 million; 3.5-acre Costa Eres off the Brittany coast, which supports a 19th-century 12-room castle, is available at \$1.5 million.

Robust demand for islands off Scotland's western coast has doubled prices in the past year, to around \$2,000 per acre. But Europeans are still buying. Similar to Maine in climate, Scotland's western isles are warmed by the Gulf Stream, so days average 75 degrees from July through August. Holm of Huip, a 62-acre ait of gentle grassy hills off Scotland's northeast coast, was recently listed at \$166,000.

Brokers are also beginning to promote Brazil's Atlantic islands—some 200 wildly contoured volcanic juts thickly covered with tropical hardwoods that lie scattered just offshore, latitudinally between Santos and Rio

de Janeiro. The owner of a 50-acre isle near Santos Bay with white sand beaches, fresh water and a tropical hardwood forest is asking \$750,000.

Warning: In Brazil and throughout the developing world, extra caution must be taken to ensure the validity of land titles. Several nations—among them India, Indonesia, Norway and the Maldives—flatly prohibit foreign land ownership. And in Greece, only a handful of less desirable isles beyond the country's winding coastal defense zone are available to foreigners.

Don't count on refunds if something goes wrong. Most island sales are straight cash deals and are often subject to a deed transfer tax of as



An island trio among the Maldives in the Indian Ocean
At any one time, no more than 300 saltwater isles are for sale worldwide.

much as 15%. Many countries also levy a capital gains tax on land sales, up to 50% in Panama's case. Be prepared to hire a caretaker to ward off vandals and maintain the property. This cost alone can range anywhere from \$24,000 per year among Pacific islands to \$40,000 and higher in the Caribbean.

The global pool of islands available for private ownership changes periodically, as countries redefine their non-resident land ownership laws. Although New Zealand still forbids foreigners to own islands within 93 miles of its coast without government approval, several islands are on the market, including 80-acre Flat Island

(\$549,000), off the North Cape, and 1,400-acre Kaikoura Island in the Hauraki Gulf. A 20-minute seaplane ride from Auckland City, Kaikoura boasts a deer, sheep and cattle ranch, freshwater springs, a two-bedroom house and 16-unit lodge. Asking price, \$5.5 million.

Uncertain political climates exert a strong effect on the island market. For example, at least seven South Sea islands in Fiji, ranging in price from \$285,000 to \$2.9 million, have languished on the market since the nation's two coups last year. Conversely, the market for islands surrounding Grenada has risen sharply since the U.S. toppled the leftist government in

1983. Not long before the invasion, nearby Calvigny Island was listed at \$1 million. Recently, a buyer offered \$1.5 million.

Need we remind you that buying an island requires intense research? Aside from such basic considerations as foreign ownership restrictions, a ready supply of drinking water, terrain suitable for building a residence, prevailing weather patterns, a protected anchorage and a stable host government, first-time island buyers sometimes let an island's charm outweigh the possible torture of reaching it. A bad mistake.

If you're looking in the western Pacific, be sure to avoid low-lying atolls



Costa Eres, off the Brittany coast

A 19th-century castle on 3.5 acres for \$1.5 million.

in the cyclone zone—30 degrees north and south of the equator. Five years ago a cyclone nearly blew Marlon Brando's Tahitian isle, Tetiaroa, off the map.

As investments, islands are extremely illiquid. Except for the U.S., most countries now reserve the right to approve nonresident recreational island purchases—this, in order to weed out speculators or extract improvement guarantees that create jobs for locals. These requirements can often be met by building an island residence, improving your anchorage or establishing an agricultural crop. Approval time ranges from a couple of weeks for Canadian and Bahamian islands to more than a year in Fiji.

Still interested? Here are a few brokers specializing in island real estate: Blair Duffy & Associates, Honolulu, Hawaii (808) 538-1481; Colliers Macaulay Nicolls, Vancouver, B.C. (604) 681-4111; Previews, Inc., Palm Beach, Fla. (407) 832-7131; and Vladi Private Islands, Hamburg, West Germany (49) 40-33-8989. Or consult the numerous classifieds in *Islands* magazine or the real estate section of the *Wall Street Journal*.

For those who'd rather rent than own, there are many possibilities. Examples include Richard Branson's Necker Island, a 100-acre British Virgin Islands retreat (\$6,500/day for 20



Little and Big Rafuse Island, Mabone Bay, N.S.

Two lakes, jutting rocks and a sandy beach for \$697,000.

guests), and the former shah of Iran's family island of Daros located in the Seychelles (\$5,500/day for 16 guests). Malcolm Forbes' Laucala Island in the Fijis rents at \$14,500/week for 8 guests.

Alternatively, you can share an island with a small number of other renters. In the Caribbean, for example, two small-island resorts, Petit St.

Vincent and Young Island in The Grenadines, rent bungalows at \$250 to \$570/day. In Australia there's Green Island, a 30-acre islet on the Barrier Reef with 30 bungalows (\$200/day each). And in the Maldives chain in the Indian Ocean, consider tiny 15-acre Kudahiti Island (\$200/day). If you don't want to call your broker, call your travel agent. ■



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If you're of royal blood, and rich, why do you work? Below, five born to the purple offer a common answer: pride.

"I'm from Turkey and I have T shirts"

By Dyan Machan

THE QUEEN OF England makes a nice living. For meeting with Margaret Thatcher, cutting ribbons and running the palace, the British government gives her a stipend of \$7.6 million. But if you are Viscount Linley, son of Princess Margaret and the Earl of Snowdon, and you are eleventh in line to the throne, you don't get paid a farthing. Although Linley may well benefit from the centuries-long accumulation of wealth by the British crown, he insists he must work for a living.

Traditionally, even useless royalty was looked after. A cousin to the king could sponge off the throne and be fashionably idle. Today, at least in England, it's a different story; the House of Windsor has decided that its scions are not to loaf.

"Don't make this sound like here's a little rich kid playing around in the designer business," says the viscount, otherwise David Linley, 26. He runs David Linley Co., which makes high-quality furniture and designs and licenses top-of-the-line consumer items like expensive stationery, china and crystal. Linley also runs a new eatery featuring international cuisine, called Deals Restaurant Diner, that he opened with Lord Lichfield in London's Chelsea Wharf.

but he is a little self-conscious about his background.

Spending a childhood in Kensington Palace was fine, but it was life outside the courtyard that Linley had to prepare for. Luckily, the transition wasn't very hard. Though he wasn't



David Linley Co.'s Viscount Linley

"It would be foolish not to use my name."

academically gifted (few in the royal family have finished college) and was not attracted to that other traditional option, military life, he loved woodcarving in shop class. So after his private schooling (at Bedale), he attended a craft school and became a cabinet maker—surely the first in the royal family.

Linley's pieces sold well, and, tak-

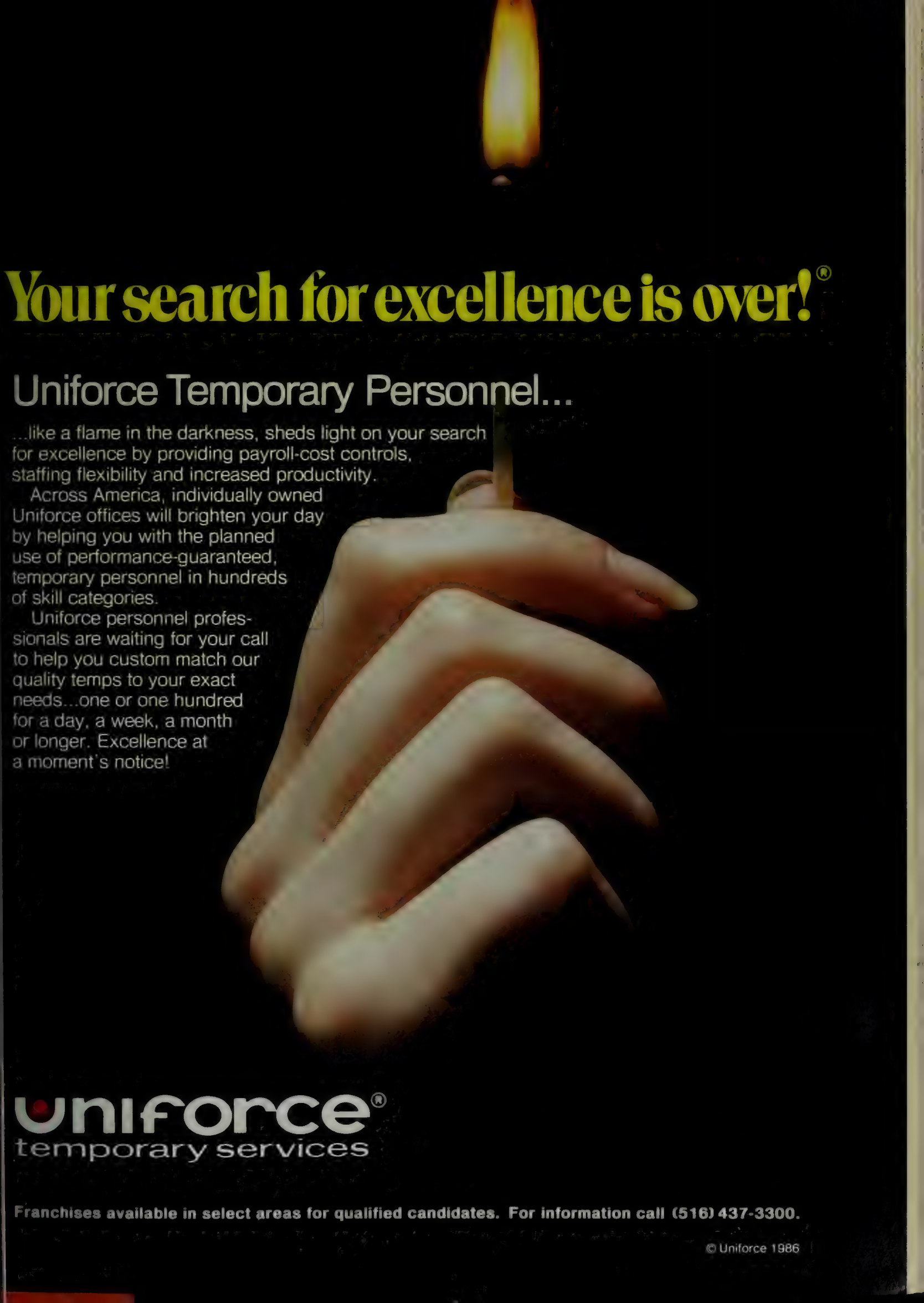
ing a partner in 1985, he started David Linley Furniture, a custom furniture maker with items starting around \$2,550. A recent commission was a 53-foot oak conference table for the Metropolitan Museum of Art, reportedly for \$55,000. Ultimately, he expects business in the U.S. to dwarf what he's doing now, and hopes to line up an American partner for a marketing push next year. "It would be foolish," the viscount says, "not to use my name."

Sarvenaz Pahlavi, 33, is the director of advertising and public relations for Harry Winston, the exclusive New York jeweler. She is also a princess, a niece of the shah of Iran. Though she says she loves her new career at the establishment where her family has long bought jewelry, it's not the way she thought things would turn out. She was brought up by parents who inspired her with the grand expectation that, in her words, royalty is a wonderful privilege that should be used to help one's people.

It would be her calling, she had decided, to create children's programming for Iranian TV, and she went to the trouble of getting a master's degree in developmental psychology from Harvard in 1977. Just as her career was beginning to bloom came the revolution. Fortunately, she was in London filming a documentary at the time, and even now prefers not to discuss the bloodletting in which several members of her immediate family were killed.

But after five years she moved to the U.S., where people ask questions such as "What do you do?" To have a ready response for such rude American inquiries, she says, and to stave off boredom, she got work as a freelance writer, publishing articles, under a pseudonym, on the arts for a couple of Washington magazines. Why the alias? "I didn't need to see my own name in print. I know who I am," she sniffs. Then, moving to New York City, she worked as an assistant to book editor and publisher Morgan Entrekin until the job at Winston came up, and she felt safer about using her own name.

If her background has helped her at all, says the princess, it's in providing a wealth of contacts. Indeed, Pahlavi



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got wind of the Winston job through a friend who inquired on her behalf at a dinner party. But how does working for a jeweler fulfill those noblesse oblige yearnings? "I don't want to answer that question," Sarvenaz says icily. "I was born to a family that happened to be rich. I am what I am. Now I'm afraid the time I've allotted for you is up."

The brothers Dimitri and Serge Karageorge are hardly embarrassed about using their titles. "A title is like a house or any other asset you would own," explains Dimitri, 30. Both he and his brother lay claim to princedom: Their father is Prince Alexander of Yugoslavia and their mother, Princess Maria Pia de Savoia, the eldest daughter of the late King Umberto of Italy. Prince Serge, 25, is a photographer with his own company, Laserphotography, and a studio on, of course, Prince Street in Manhattan. His specialty is producing huge photographs eerily altered with unearthly colors. Some subjects: Barbara Sinatra, Kirk Douglas and Caroline Herrera, among those willing to shell out

\$2,000 a shot. "My name brings a certain clientele. If you have it, you should use it, no?" says Prince Serge, who prefers being known as just Serge of Yugoslavia. The only problem with that is that people sometimes misunderstand on the phone and think he's calling them long distance from Europe.

Henri Dauman

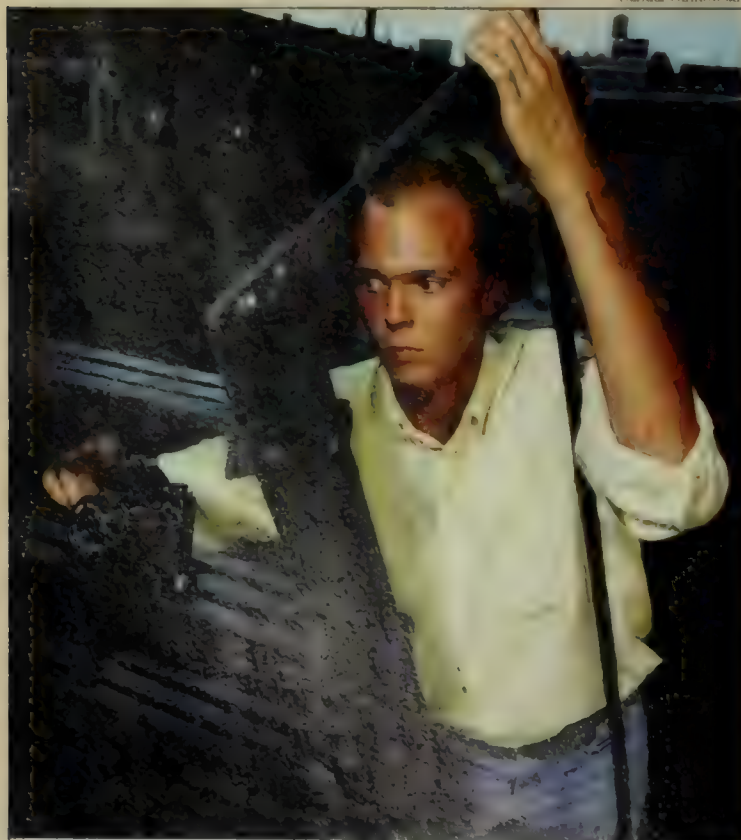


Sarvenaz Pablavi of Harry Winston
"I am what I am."

His brother, Dimitri, who has a French law degree but has never practiced, works at Sotheby's as an assistant vice president in the jewelry department. His specialty is business development. He carries two cards, one for Americans with his family surname, Karageorge, the other for Europeans with his full title. "When Sotheby's wants to approach a wealthy client, it's easier for them to relate to a Prince Dimitri of Yugoslavia rather than to a Mr. Nobody."

The princes, who grew up in a mansion in Versailles, share an apartment plastered with dozens of lithographs depicting their family history. In the main room of their Upper East Side triplex, portraits of Catherine the Great and Henrietta of England adorn the walls. Both are relatives, they explain, adding, with a laugh, "but we don't mean to drop names." Neither has to work and could get by well enough on interest from his trust fund, but the idea of becoming idle appalls them. "Not to work, what would people think?" asks Dimitri.

Danuta Otfinowski



Prince Serge of Laserphotography
"My name brings a certain clientele."

Danuta Otfinowski



Sotheby's Prince Dimitri
"A title is like any other asset."

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James Lukoski



Princess Zeynep Tarzi of Zana Couture

"Here nobody knows who Zeynep Tarzi is, and nobody cares."

Princess Zeynep Tarzi, 42, refused to use her title to make her fledgling fashion business a success. It would have been cheating, she says, playing on the emotions of an American public that might pity a poor Afghan princess. Never mind that it's been more than a century since her branch of the family ruled (the most recent king, Mohammad Zahir Shah, now residing in Rome, is her father's cousin) and that she grew up exiled in Istanbul. She was raised a princess nonetheless, she says in the perfect English that she learned from a proper English nanny.

Starting her own business was not a foreign concept: Her parents were early capitalists. After her father, Prince Fettaf Tarzi, was banished in 1928 from Afghanistan in a religious uprising, money quickly ran short. He and his new Turkish wife founded a hospital, which became quite profitable. It was expected that their daughter, Princess Zeynep, would marry well and work at the hospital, but she had different ideas.

Falling in love instead with the New York skyline on a visit in 1972, she set out to stay here, making a bad decision to marry a distant cousin who was studying in town. After shaking off the marriage, she still wanted to stay and work, not so much for the income, but for something to do. As a lark, and a dare to herself, she had hand-crocheted cotton T shirts made up in Turkey to see if she could sell them in New York.

Showing up at Bloomingdale's in

1979, she asked for the buyer, saying, "I'm from Turkey and I have T shirts." Her thinking was that the merchandise should succeed or fail on its own. Bloomingdale's bought. Similar trips to Macy's, Henri Bendel and Saks Fifth Avenue brought similar results. From the original T shirts she had more than 1,000 reorders. "I didn't understand what reorders were," she recalls. Though she was not initially serious about the business, her early success hooked her. "I'm a complete foreigner, and I started selling something, and what? They wanted more. It gave me so much pleasure, you have no idea."

Today Zana Couture handles a high-priced line of specialty women's wear, and Tarzi's attitude has changed. Having had trouble getting financing, she sank thousands of her own money and reinvested profits into the business. Now she feels she has to make it work.

Last year, Princess Zeynep claims, she had a pretax 10% return on \$2.5 million in sales. But, as is the case at many other companies in the retail garment business, sales for this year so far are down. "I had a much better life in Turkey—a house, a maid, a cook, a driver. Here, I have a one-bedroom apartment with no live-in maid."

But Istanbul couldn't offer what America did: "In Istanbul, I didn't have to fight to get what I want. Here nobody knows who Zeynep Tarzi is, and nobody cares." A princess has to make it on her own. ■



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Why they do it



Billionaire Robert Alan Pritzker

"You feel you are achieving something."

One of the perennial questions people ask about The Forbes Four Hundred is, Why do they do it? Why do they keep working, piling up assets, far beyond the point at which many people would sell out and head for the sidelines to spend the rest of their days in luxury?

Robert Pritzker, billionaire-plus and still hard at work (see listings) answered that question for *FORBES* during an extensive interview:

"It's not money. You think I'm going to work as hard as I do for another dollar?

"It's not power. What are you going to do with it, realistically?

"It's because it's fun, it's interesting, and you feel you are achieving something.

"But you also want to keep your values. You're still a person. You still have to get up in the morning and deal with people. How I'm treated by the car guy in the garage is important to me," confided Pritzker. "I want to be respected by people."

By way of a concrete example, Pritzker recalled a recent tour of a factory in Eastern Europe, a new one that was clean, efficient and very productive. The tour lasted 2½ hours, and Pritzker, an engineer, ate it up,

asking the general manager a continual stream of questions. Later, because he wanted to do business with this factory, he asked the trade attaché how the tour seemed to go from the host's perspective. Very well, said the attaché. The general manager had re-

marked that of all the senior executives who had ever visited, Pritzker was the first who understood it and was interested in it. "It makes you feel good. That's the kind of respect I want," says Pritzker, "not whether your name is on The Forbes Four Hundred list, which is the sort of thing you're a little embarrassed about."

Sam's daughter

Alice Walton, daughter of Sam Walton, richest man in America, has set out to prove her own financial savvy. With a \$19.5 million boost from Walton Enterprises Inc., the family holding company, Alice has started her own investment firm, Llama Co., in Fayetteville, Ark.

Walton, 39, has organized Llama as two sister partnerships—one a conventional broker-dealer operation, the other to manage portfolios of fixed-income securities, including municipals and mortgages, for wealthy individuals and banks running pension and profit sharing plans.

She believes she has found a niche with the broker-dealer operation, underwriting debt for small and medium-size businesses, mainly in northwest Arkansas, that are too large for local banks but too small to interest big national firms.

Hardly a passive overseer, Walton puts in about 60 hours a week. A graduate of Trinity University in San Antonio, Tex., where she studied business, she briefly worked for her father as a buyer at Wal-Mart in Ben-



Sam's daughter Alice Walton

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David Gresham

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tonville, Ark. but then struck out on her own. She worked 16 years in investments, sales and equity management at several major firms, including National Bank of Commerce and E.F. Hutton in New Orleans, and more recently ran the investment operation of a string of six small local banks owned by the Walton family. Her Llama staff now numbers 11, including several regional investment specialists with at least ten years of experience.

Why did she name the firm "Llama"? "He's my buddy," Alice Walton says of LeRoy, her pet llama. "They're intelligent, unique animals with almost 360-degree vision. I like those qualities as they relate to what we're trying to do in the investment business."—Kristin Lipani

Art imitates Masco

Wall Street and Main Street know Richard Manoogian and his father, Alex (*see listings*), for the company they are principals of, Masco Corp., which developed the one-handed Delta faucet. But the art world knows Richard better as the leading collector of 19th-century American paintings. Admiring art experts value the Manoogian collection, considered by many the most complete in the country, at over \$250 million.

Manoogian estimates he has over 1,000 paintings. He keeps the first work he bought, an early watercolor by Andrew Wyeth, in a closet at his home in Michigan's exclusive Grosse Pointe. He bought it on a whim during a trip to New York in the late 1960s. He didn't know much about art then. "It's a very nice picture, but it's not what you would think of in Andrew Wyeth," he says now. "He's probably not wanting to have it shown anyway."

Manoogian has built his collection with much the same aggressive style and dealmaking talent that drove Masco to acquire more than 100 companies over the past 25 years. Last year he snapped up George Caleb Bingham's *The Jolly Flatboatmen* for a smooth \$6 million (the painting remains at the National Gallery, where the previous owner kept it). An extensive information network of deal and private collectors carefully built

David Kreszak/Black Star



Masco's Richard Manoogian
Waiting 15 years for a picture.

up over the years brings desirable objects d'art to his attention as soon as they become available. (Sometimes before—"I recall pictures I've worked on for 10, 15 years that I still haven't gotten," he says.)

The resulting collection is divided between his Grosse Pointe home, Masco headquarters, various museums and traveling shows, and probably will never be under one roof. Eventually most of the works will go

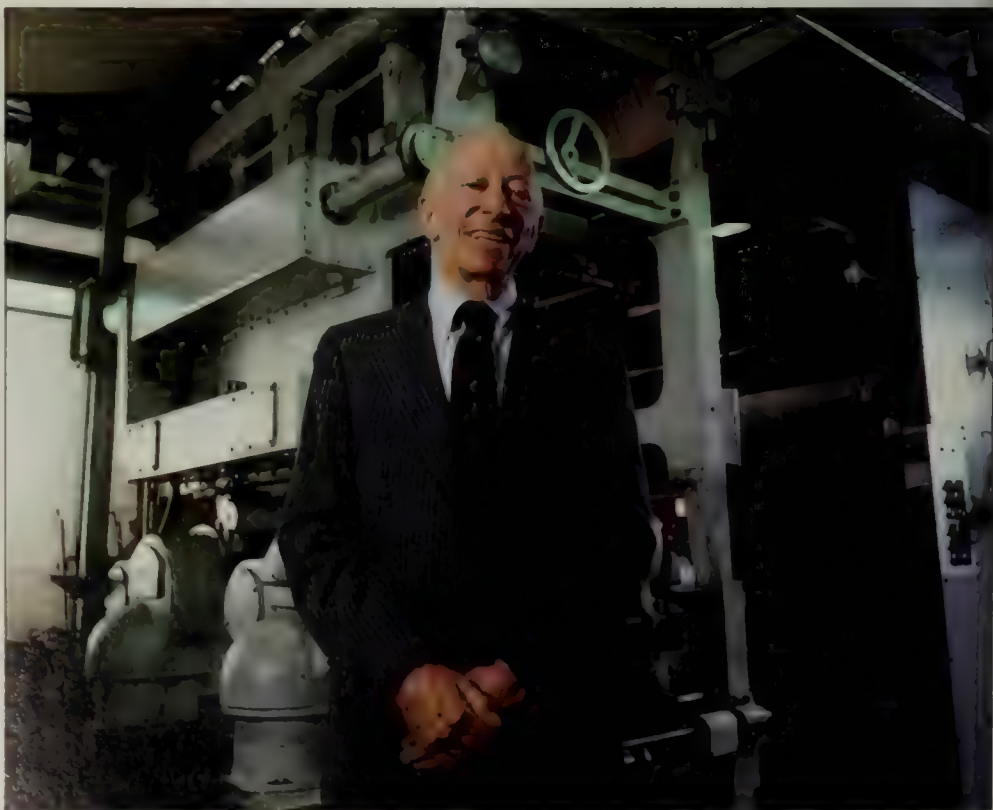
to institutions, he says, "to be enjoyed by people."

Manoogian's drive to possess the exceptional has built a collection that by itself could qualify him for The Forbes Four Hundred. Same thing with his family company. Once again, art imitates life.—Gina Romero

Press lord redux

William Dean Singleton, the highly leveraged Texas acquirer and publisher of newspapers, is that industry's favorite bet to make The Forbes Four Hundred some day, or bust—and quite a few industry insiders are betting on bust. But here's one who isn't: Singleton's little-known silent partner in MediaNews Group, Richard Scudder, 75. Some time back, Scudder sold a New Jersey publishing company for stock that today would put both him and his brother within an ace of Four Hundred wealth, had he kept it, which he didn't. He feels he has planted the seeds of another great newspaper fortune; Scudder's children are the charter investors.

Scudder and Singleton made headlines in September 1987 when they spent a total \$245 million acquiring the *Denver Post* and the *Houston Post*. In the last five years the pair, often in partnership with Media General Corp., have shelled out over \$700 million to acquire some 50-odd newspaper properties. "To say that these



MediaNews Group's Richard Scudder
Planting the seeds one more time, for the kids.

Juris Mardwig

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things have appreciated in value," says Scudder, "is an understatement." Scudder has managed to turn his initial \$3 million equity investment in the deals with Singleton into \$33 million, largely by getting Virginia-based Media General to put up most of the cash for acquisitions.

The funny thing is, this isn't Scudder's first shot at building a media fortune. In 1970 Scudder and his brother sold two family-owned properties in New Jersey, the *Newark News* and the Garden State Paper Co., to Media General for about \$35 million in stock. They sold at the perfect time, right before the paper's union troubles heated up and the New-houses' *Newark Star-Ledger* forged way ahead. Scudder sat on the Media General board for several years, until he got restless and began selling his shares to invest in, among other things, California cattle ranches and almond groves, before teaming with Singleton. Had he held on, his family's Media General stock would now be worth over \$430 million.

Still, Scudder remains philosophical about his decision to sell. "We've done well with it," he says with a laugh. "And the kids will be quite well off."—Christopher Palmeri

Vrooom

Growing up in Brooklyn, Michael Schudroff spent teenage afternoons under the hood of one car or another, dreaming it was his own Rolls-Royce. Today his Carriage House Motor Cars, Ltd.—with showrooms in Manhattan and Greenwich, Conn.—has been the world's top-selling dealer of Rolls-Royces and Bentleys four years running.

Schudroff is not the kind of person you'd expect to be selling, let alone owning, cars priced from \$107,000 to \$199,500. With shoulder-length brown hair, he prefers khakis and Reeboks to a suit and tie. He speaks pure Brooklynese—with little affectation. And at 43 he's younger than most of his customers.

But in 1971 Schudroff opened up a small shop on East 73rd Street, restoring old Rolls-Royces, Bentleys and other British cars. Rolls' factory service department happened to be right across the street. When Schudroff be-



Carriage House's Michael Schudroff and the new Bentley Turbo R
"People are going to be trading in their Ferraris for this car."

Diane Rubinger

gan outselling the factory, the company asked him to take on its franchise.

Before he was an official dealer, Schudroff, dressed in jeans, sneakers and a sweatshirt, visited Jack Barclay Ltd. in London, the top Rolls and Bentley seller at the time. He was thrown out when he started to open the door of a Bentley convertible. He says, grinning, "I said to myself, 'One day, I'm going to show them.'"

If Schudroff has a magic formula, it's treating customers—mostly corporate heads and celebrities—very well. If a car needs work, he will send someone to pick it up, be it in Manhattan or Maryland. If one breaks down, a mechanic is on call 24 hours a day, reachable at a toll-free number. "And we never charge anyone for a car wash."

Unlike some of the other 227 Rolls dealers around the world, he services only Rolls-Royces and Bentleys. "If you put your mechanic working at just one car, he's going to be great at it," Schudroff says. "If you put him one day on a Mercedes, next day a BMW and the next a Rolls, he won't be great at it." On the day *FORBES* interviewed Schudroff, he would not let one of his salesmen deliver heavyweight boxing champion Mike Tyson a new Corniche Convertible until he had checked it out personally.

Schudroff, who drives a Bentley, epitomizes the new kind of Rolls-Royce customer—youngish entrepreneurs. So, Rolls hopes, does its new model, meant to attract more of the new breed: the Bentley Turbo R, a

souped-up sedan introduced in the U.S. in early September. The car—all 2½ tons of it—goes from 0 to 60mph in 6.7 seconds and races at 135mph. It retails at \$145,000, not including sales taxes.

Says Schudroff: "People are going to be trading in their Ferraris and Porsches for this car." —Claire Poole

Playing with the big boys

Michael Lamb is trying to build a business on the notion that the little guy can play ball with the likes of Carl Icahn, Warren Buffett and the Bass brothers simply by hanging out with them.

Based on the public record to date, there isn't much evidence that his theory works, but Lamb does make an interesting case. "There are very few assets that you and I can buy that are identical," Lamb says, beginning his pitch. "You buy real estate, every piece is different. But you can buy a share of Disney stock at the same price the Bases bought a million shares. You can follow them."

So the 35-year-old owner of Kansas City's Wealth Monitors Inc. has a newsletter, a mutual fund and a money management firm, all trying to do just that.

Isn't it too late to buy after someone like Icahn has filed a 13-D (the SEC registration required of holders of more than 5% of a company)? Yes and no, Lamb replies. It generally takes his staff a few days to pore over a



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target company to see what the big guys see in it. In that time others will have jumped in, Lamb concedes. But at that point, he says, the game may be far from over. "We've found that over 80% of the time the price will swing back down below the big investor's cost," he says. "If you know what you want to buy at what price, you simply have to wait." To catch up when Icahn went after TWA, he adds, it took him 11 months of waiting before he bought in. Lamb says he sold 17 months later at twice his investment. Like most fund managers and newsletter writers, Lamb doesn't dwell on his mistakes.

Lamb says he piggybacks on a select group of 25 or so "power investors" in managing over \$200 million of other people's money. He claims returns of more than 20% a year over the four mostly bullish market years he's been in business. The claim cannot be independently verified, and such results are foreign to the public investors in Lamb's open-ended mutual fund. The no-load fund debuted in July of 1986



Wealth Monitors' Michael Lamb

Eli Reichman

Good idea, less impressive record.

at about \$9, and finished 1987 at \$6.09 (assuming dividends were reinvested). Although the fund is up 12% so far this year, \$1,000 invested with Lamb in 1986 would be worth only \$779 recently. Not quite the performance a Carl Icahn would be happy with, and a considerably poorer performance than a no-brainer investment in the S&P

500. A wait-and-see policy seems called for on this one.

But Lamb is undismayed. "We've decided to stay with just the core group," he says. "If they are making \$500 million investments, I'll guarantee you they'll bust their tails to make them work."—Christopher Palmeri

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Robin Cousins, Olympic Gold Medalist Photo by Cindy Lang



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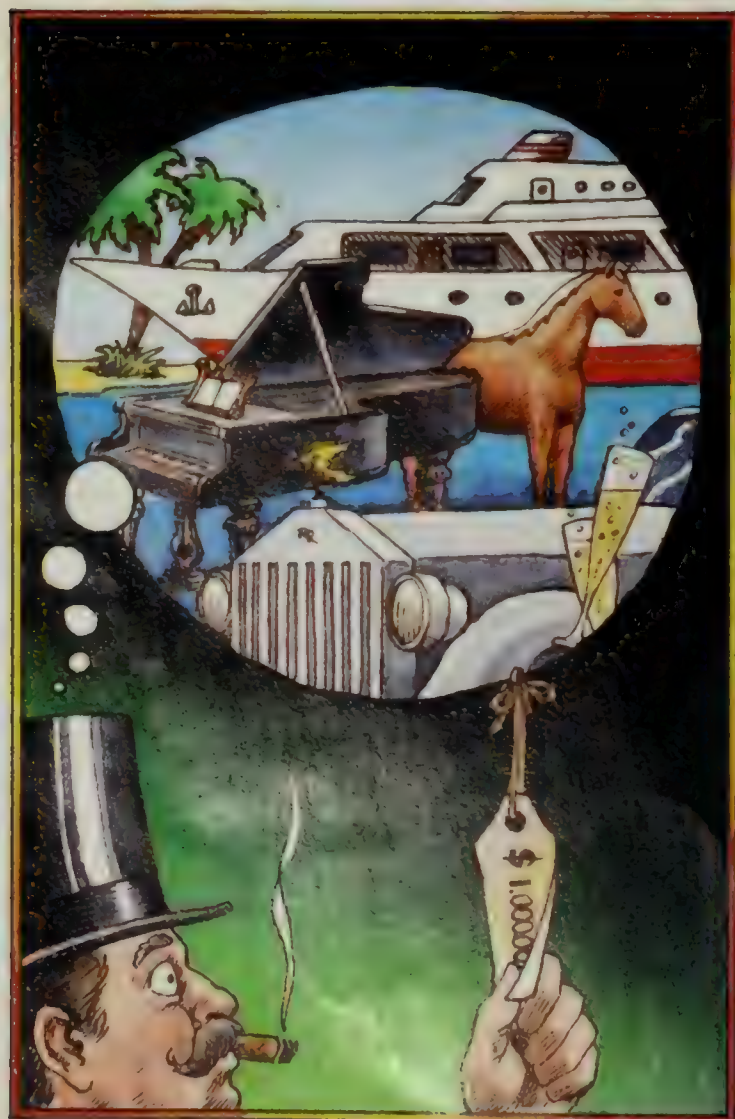
Thanks to cautious foreign producers, America's wealthiest consumers were not obliged to struggle as hard last year to maintain their purchasing power.

The Forbes Four Hundred Cost of Living Index

By Christie Brown

THERE WAS GOOD NEWS, of sorts, for all in prices this year. The Consumer Price Index, the index to which most American consumers relate, was up only 4.5% at an annual rate through July, little changed from plus 4.4% last year. The people able to spend should have had it so good.

Jean François Allaux



The Forbes Four Hundred Cost of Living Index rose 10%. But even here the tidings were not entirely bad when compared with last year, when The Forbes Four Hundred index climbed a wallet-numbing 19%.

Why did the country's megarich have to increase their disposable incomes by a relatively minor amount to maintain their purchasing power? To measure the change in the

Apparel

Coat, natural Russian sable by Maximilian Fur Co., N.Y.		
1976: \$40,000	1988: \$150,000	Change 1987-88: +11%
Dress, Adolfo Couture Classic		
1976: \$950	1988: \$1,500	Change 1987-88: none
Loafers, Gucci		
1976: \$89	1988: \$195	Change 1987-88: -13%
Shirts, 1 dozen cotton Turnbull & Asser, made to measure		
1976: \$448	1988: \$1,357	Change 1987-88: +7%
Shoes, men's black calf wing-tip, custom-made, John Lobb, London		
1976: \$202	1988: \$1,286	Change 1987-88: +16%

Educational expenses

School, preparatory, Groton, 1-year tuition, room, board		
1976: \$4,200	1988: \$13,900	Change 1987-88: +9%
University, Harvard, 1-year tuition, room, board, insurance		
1976: \$5,900	1988: \$18,200	Change 1987-88: +10%

Entertainment

Catered dinner, for 40, by Ridgewells, Inc., Washington, D.C. (Menu: soup, salmon, veal, dessert; wine not included)		
1976: \$2,200	1988: \$4,560	Change 1987-88: +20%
Opera, 2 season tickets, Metropolitan Opera, Saturday night, box		
1976: \$480	1988: \$1,764	Change 1987-88: +3%

Food at home

Caviar, beluga malossol, 1 kilo tin, average retail		
1976: \$283	1988: \$1,100	Change 1987-88: +27%
Champagne, Dom Perignon, case, Sherry-Lehmann, N.Y.		
1976: \$300	1988: \$695	Change 1987-88: +9%
Filet mignon, 7 pounds, Lobels, N.Y.		
1976: \$50	1988: \$84	Change 1987-88: -8%

cost of being rich, *FORBES* tracks 43 items that roughly match the categories in the U.S. Bureau of Labor Statistics' larger CPI. Curiously, the best buys were to be found in luxury imports—the opposite of what you would expect, given the continued doldrums in the dollar. Six items, including Pratesi silk sheets (Italy), Purdey shotguns (England) and Loewe suitcases (Spain), showed no price change at all. Explanation: There was widespread fear abroad that well-heeled Americans would stop buying after the October stock market crash. Convinced that the U.S. was heading for a recession, foreign manufacturers narrowed margins to hold down prices and maintain orders. (The 13% drop in the cost of Gucci loafers was a special case: Gucci had badly overstocked materials and was working them off.)

Among the made-in-America items in our index, the Learjet 35A, at \$3.8 million, didn't rise a penny from its

price last year. (The business aircraft market is weak.) But the Lear is an exception. Many American vendors saw what foreigners did not—that the U.S. economy and its consumers remain strong—and the locals have more than made up for importers' pricing caution. U.S. plastic surgeons, for example, have pushed up the cost of staying youthful via a face-lift by 20%. Filling your home with fresh flowers climbed 40%. And the cost of entertaining your 40 closest friends at dinner increased 20%. In the art world, the Sotheby's index rose 39%. Impressionist paintings led the way, with a 65% dollar price rise. This strong showing, of course, reflects the fact that art is an international commodity for which America's wealthy must compete against their classmates from other countries wielding stronger currencies. Should the dollar substantially rally, the price increases for many components of our index should further moderate next year. ■

Food away from home		
Dinner, La Tour D'Argent, Paris; Michelin estimated price		
1976: \$34	1988: \$133	Change 1987-88: +37%
Home furnishings		
Piano, Steinway & Sons, concert grand, Model D, ebonized		
1976: \$13,500	1988: \$43,700	Change 1987-88: +6%
Flowers in season, arrangements for 6 rooms, changed weekly, by Christatos & Koster, Inc., N.Y., per month		
1976: \$1,400	1988: \$3,500	Change 1987-88: +40%
Sheets, set of embroidered silk, by Pratesi, queen size		
1976: \$1 218	1988: \$3,020	Change 1987-88: none
Silverware, Kirk Steiff Co., Colonial Williamsburg Shell pattern, 4-piece place setting, for 12		
1976: \$1,341	1988: \$3,000	Change 1987-88: none
Lodging while out of town		
Hotel, 2-bedroom suite, park view, The Sherry-Netherland, N.Y.		
1976: \$250	1988: \$700	Change 1987-88: +6%
Medical care		
Face-lift, Amer. Acad. of Facial Plastic & Reconstructive Surgery		
1976: \$4,000	1988: \$6,000	Change 1987-88: +20%
Hospital, VIP, Washington Hospital Center, Washington, D.C., 1 day (2 bdms, lvg rm, concierge, security, gourmet meals)		
1976: \$325	1988: \$567	Change 1987-88: +10%
Psychiatrist, Upper East Side, N.Y., 45 minutes, standard fee		
1976: \$40	1988: \$140	Change 1987-88: none
Personal services		
Lawyer, established mid-Atlantic firm, partner, estate planning, average hourly fee		
1976: \$80	1988: \$155	Change 1987-88: +3%
Spa, The Golden Door, California, basic weekly unit		
1976: \$1,250	1988: \$3,500	Change 1987-88: +17%
Toilet goods and personal care appliances		
Perfume, 1 oz., Joy by Jean Patou		
1976: \$100	1988: \$250	Change 1987-88: +9%
Sauna, by Helo, Inc., 6x8 feet, 8-person, cedar, stained-glass window		
1976: \$5,000	1988: \$8,268	Change 1987-88: +5%
Sporting goods		
Motor yacht, Hatteras 53		
1976: \$214,700	1988: \$613,300	Change 1987-88: +8%
Sailing yacht, Nautor's Swan 65		
1976: \$384,300	1988: \$1,600,000	Change 1987-88: +14%

Sporting goods		
Shotguns, pair of James Purdey & Sons, at Griffin & Howe, N.Y.		
1976: \$20,000	1988: \$70,000	Change 1987-88: none
Thoroughbred, yearling, average price at Keeneland select sales		
1976: \$67,300	1988: \$367,800	Change 1987-88: -1%
Sports facilities		
Swimming pool, Olympic, standard site		
1976: \$180,000	1988: \$505,500	Change 1987-88: +5%
Tennis court, clay, standard site		
1976: \$25,000	1988: \$45,000	Change 1987-88: none
Toys and hobbies		
Train set, G gauge, by LGB, FAO Schwarz, N.Y.		
1976: \$178	1988: \$425	Change 1987-88: none
Transportation, private		
Airplane, Learjet 35A, standard equipment, certified 10 passengers		
1976: \$1,800,000	1988: \$3,800,000	Change 1987-88: none
Helicopter, Sikorsky S-76B, full executive options (introduced 1978)		
1978: \$1,300,000	1988: \$4,400,000	Change 1987-88: +19%
Automobile, Rolls-Royce Silver Spirit (formerly Silver Shadow)		
1976: \$38,000	1988: \$117,500	Change 1987-88: +7%
Transportation, public		
Airline ticket, British Airways Concorde, round-trip N.Y.-London		
1976: \$1,512	1988: \$6,420	Change 1987-88: +7%
Utilities and public services		
Telephone call, 10 minutes, AT&T, N.Y.-London		
1976: \$12	1988: \$10.54	Change 1987-88: none
Other goods and services		
Cigars, Cuban, box of Davidoff No. 2, Toronto		
1976: \$146	1988: \$522	Change 1987-88: none
Magazine, <i>FORBES</i> , 1-year subscription		
1976: \$15	1988: \$48	Change 1987-88: +6%
Suitcase, Loewe, black napa leather, 27-inch-long		
1976: \$739	1988: \$1,700	Change 1987-88: none
Watch, Patek Philippe classic man's gold, leather strap		
1976: \$2,450	1988: \$7,150	Change 1987-88: +13%
Purse, Hermès, "Kelly Bag," calf, 10 inches		
1976: \$550	1988: \$2,350	Change 1987-88: +9%
Sotheby's Art Market Aggregate Index		
1976: \$111	1988: \$660	Change 1987-88: +39%

THE NEW YORKER



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THE BEST-WRITTEN, BEST-READ MAGAZINE IN AMERICA.



Press Clippings

Each October, the media report the year's Forbes Four Hundred listings and consider the relationship of great wealth to America at large—sometimes with enthusiasm, sometimes with decidedly mixed feelings. Below, a sampling from the 1987 reaction.

The Forbes Four Hundred as employment guide



Greg Couch

WHEN RESEARCHING America's best workplaces, I was struck with how frequently companies considered good employers were founded by people who had become extremely wealthy. Out of curiosity, I placed a Forbes Four Hundred list alongside a list of the firms picked for *The 100 Best Companies to Work for in America*. Among the Forbes Four Hundred are 65 individuals or families whose fortunes come from having founded or run one of 21 companies listed among the 100 Best... Seven men interviewed for *The 100 Best Companies to Work for in America* or this book show up on the 1987 Forbes Four Hundred list: Sam Walton, David Packard, Ewing Kauffman, Trammell Crow, Donald Hall, Fred Smith, John Weinberg.

Whether these men would like to be known as "nice guys," their employees consider them terrific em-

ployers. As a group, they refute the widely held belief that the only way to get rich is to exploit your employees. They have taken a lot of people with them while going to the top... Without exception, these men ascribe their success largely to their people-oriented philosophies.

A Great Place to Work

Robert Levering

Random House 1988

"Sid, get the book"

"Rich?" laughed my stockbroker, when I suggested that he was. "You want to know what rich is? I have this one guy, Forbes Four Hundred, who—"

"Wait. You have a client who's in the Forbes Four Hundred?"

"No matter what stock it is, practically, he's got some of it."

"You have a client who's in the

Forbes Four Hundred?"

"He's got so many stocks, he can't even remember them all. One day, I asked him what he thought of Texaco."

(This is how my broker does research. He asks his clients what they think. He gets them to do research for him.)

"How did you get a client like this?"

"So I ask him about Texaco and he says, 'Texaco. I think we got some of that. I can't remember. Sid, get the book.' That's what he says—'Sid, get the book.' So Sid comes over with the book and the guy goes, 'Texaco, Texaco'—you know, paging through it. 'Oh, yeah. We got 15,000.' Can you imagine not remembering you had 15,000 shares of Texaco? *That's* rich. I love it—'Sid, get the book.'"

Andrew Tobias

Playboy, October 1987

Flash: Harold's okay

Don't send your spare change to Harold Simmons. The Dallas investor is in good financial condition. He is only suffering from a bruised ego after being left off a recent FORBES magazine listing of U.S. billionaires [July 25].

"Since your last issue about billionaires omitted my name, I have been embarrassingly besieged by calls from friends wanting to know what financial catastrophe has befallen me," complained Simmons, a Dallas entrepreneur, in a letter to the editor...

Then Simmons... detailed why his feelings were hurt. [A list of Simmons' assets followed.] Surely, Simmons suggested, all that puts him in the company of the FORBES Texas line-up, which includes Dallasites H. Ross Perot and Margaret Hunt Hill,

Robert, Sid and Lee Bass of Fort Worth; and the Cullen family of Houston. [See listings—Ed.]
Dallas Times Herald

Forbes Four Hundred as marriage guide

I have spent a productive morning going through the Forbes Four Hundred list. Wouldn't it be nice if, in the index, the magazine also listed whether people are single?

... FORBES does give us a little help with "44 men and 30 women are unmarried." But, Malcolm, dear, it does take a long time to find the 44. ...

The Gettys are in the Social Register, but—now this is serious—there are only three billionaires (one is Margot's adorable uncle, Henry Hillman of Pittsburgh; David Rockefeller would have made it four, but for some reason his name isn't in the register) who made the Four Hundred and the Social Register. Democracy works. Money and blue blood aren't necessarily intermingled; no longer can we be sure that the right clubs are the right clubs.

It doesn't mean that those with tons of money can't make the Social Register. The easiest way is to marry someone who's in it. Like me. ...

A lot of the boys without the blue blood can be fun and so macho. Actually, at dinner at the Gettys I've met four of the top billionaires—Kluge, Petrie (his son, Bernard, lives on Russian Hill), Taubman and Perot, who is really adorable (his wife has gorgeous diamonds). A lot of them are no-fuss, solid and have old-fashioned ideals. Dynamic Al Taubman, for example, is married to a former Miss Israel and owns Sotheby's.

Muffie's Diary
San Francisco Chronicle

Forbes Four Hundred as inspiration

Says humorist Robert Orben: "Every morning I get up and look through the FORBES list of the richest people in America. If I'm not there, I go to work."

Reader's Digest

Forbes Four Hundred as sports page

It is interesting to consider [the professional football strike]. ...

Some time ago, FORBES magazine ran a list of the 400 richest men in America. On it were some familiar names. Jack Kent Cooke, owner of the Washington Redskins... Bum Bright, owner of the Dallas Cowboys... the Detroit Lions' William Clay Ford... the New York Jets' Leon Hess... the Kansas City Chiefs' Lamar Hunt... the Tampa Bay Buc-

caneers' Hugh Culverhouse... the San Diego Chargers' Alex Spanos... the Minnesota Vikings' Irwin Jacobs... the father of the San Francisco 49ers' Edward DeBartolo. ...

So what those polls show is a fascinating phenomenon. The American people, most of them wage-earners themselves, are siding with 28 millionaires, among them some of the richest men in America, against 1,300 guys who work for a living.

Chicago Sun-Times

Stories we've heard before

Some of the super rich listed in FORBES are calling the magazine's report of their wealth "absolutely astounding." None of the multimillionaires we contacted like to discuss their wealth and spoke only on the promise of anonymity. One of the rich and famous declared, "The magazine assumed I owned all the property and companies they listed, but in most cases I own only a percentage. Hence their figure was far off base." Another declared, "FORBES just ignored what the debit side of my holdings are. The fact is I owe a fortune on these holdings." (P.S.—Hold the tears.)

Irv Kupcinet
Chicago Sun-Times

Reason to buy five lottery tickets

"Lottery fever" was sweeping Pennsylvania last week as the thought of perhaps being the sole holder of a \$46 million winning Super 7 ticket motivated many through the drudgery of another work week.

Now consider this—one would have to win five such \$46 million jackpots to even get within striking distance of the bottom of FORBES magazine's just-released listing of the 400 richest people in America.

And, of course, since the Pennsylvania lottery payoffs are in annual installments stretched out over a number of years—which probably explains why none of America's wealthiest citizens gained their fortune through the lottery—the dream of the Forbes Four Hundred becomes even more distant.

Pittsburgh Business Times-Journal

High jump

FORBES magazine... came up with 49 billionaires. That's billion with a "b" as in bountiful.

USA Today figured a billion \$1 bills stacked would reach 123 miles into the sky. Top man Sam Moore Walton's personal pile of \$8.5 billion would tower 1,045 miles.

Chicago Tribune

Forbes Four Hundred and relativity theory

The middle market means something different to nearly every bank. ... To the big banks, the middle market includes any company that is not quite Fortune 500 and individuals who have inherited Forbes Four Hundred-type fortunes. At smaller banks, ordinary doctors and lawyers might qualify.

Los Angeles Business Journal

We knew it was something

Number one is Wal-Mart's Sam Walton, whose assets doubled to \$8.5 billion last year. Now where does that leave the rest of us? Well, when Walton was a kid, he worked for J.C. Penney at \$85 a month. The difference is he didn't stay at that salary.

WWSB-TV (ABC) Channel 40
Sarasota, Fla.

Flash: Reading not worth \$7.48

Just before the stock market crashed, FORBES magazine announced that the number of billionaires in America had doubled in the past year. Just before the market crashed, Shasta County [Calif.] closed its entire 10-branch library system for lack of money.

Is there any question that something had gone askew in America?

During the past year, the combined net worth of FORBES' 400 richest Americans increased by \$64 billion to \$220 billion. Shasta County, population 133,752, lost its library for want of \$1 million [which works out to \$7.48 per person in Shasta—Ed.].

Los Angeles Times

Not even the Forbes 400,000?

FORBES magazine published the names of the 400 wealthiest people in the U.S. It reported the average age of the 400 is 62.9 years. At the end of this month I will be 62.9 years. Not only am I not a member of Forbes Four Hundred but I would not be eligible to be among Forbes 4,000 or Forbes 400,000 or Forbes 4,000,000. Don't sit there and commiserate with a long sigh of "Awwwwwww."

Just send in your subscription check so that I can begin to move up in the standings.

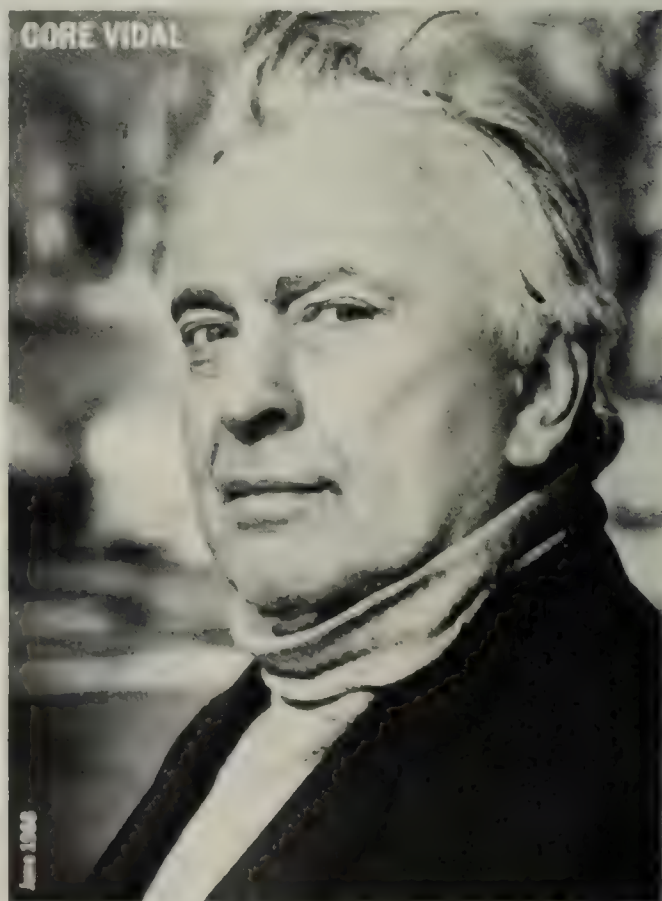
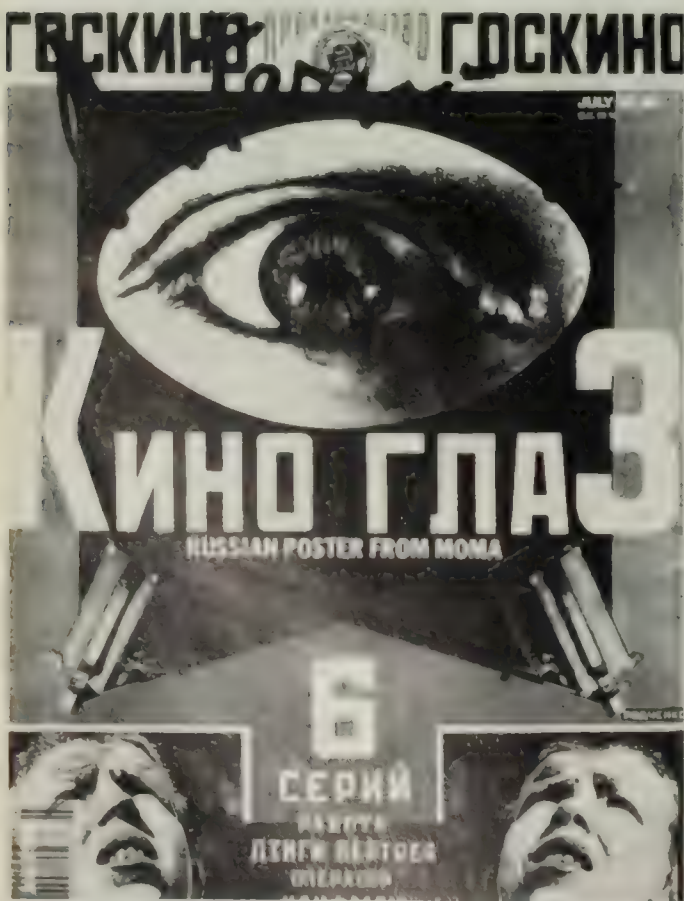
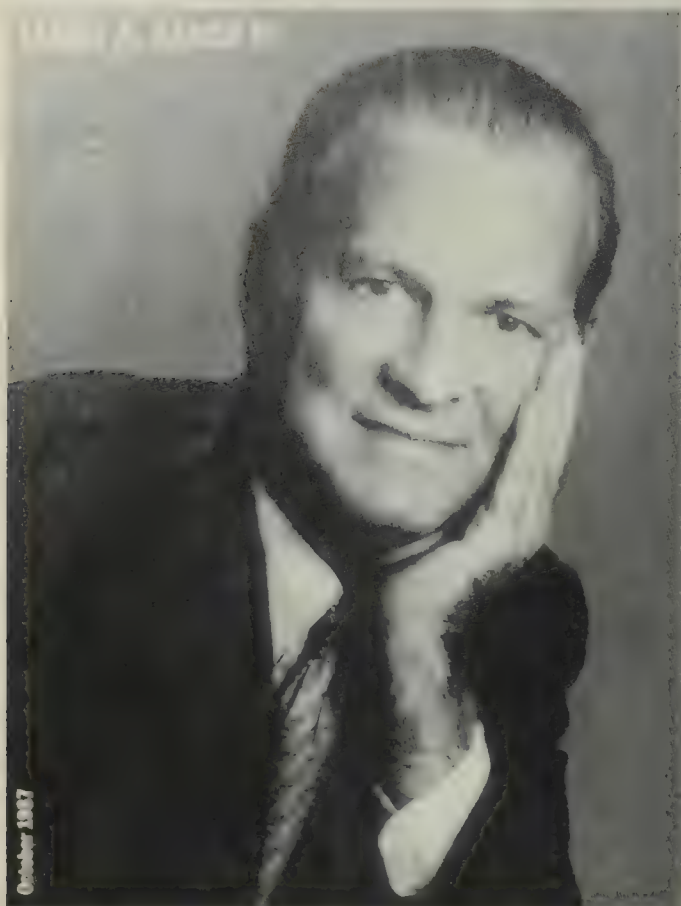
Bugle
Niles, Ill.

Relativity, part two

William C. Ford, of the auto family... owns the Detroit Lions and has a bundle estimated at \$900 million.

Those kinds of numbers are hard for most of us to comprehend. But to bring it into perspective, figure it this way:

NONCONFORMIST CONSPIRACY



Even our readers are a surprise. Our average reader is 28 and single, has an income of over \$61,000, and passes Interview on to at least four friends.*

This represents a lot of buying power per single copy: over \$300,000, or almost \$50 billion per issue.**

Interview

19 East 32nd Street New York, New York 10016 (212) 685-1800 FAX (212) 689-5127

*Reader Survey conducted by Mark Clements Research, Inc., 1987.

** Audit Bureau of Circulations average paid circulation, 12/31/87.

If Ford invested his \$900 million in nice, safe CDs or government bonds at the going rate of about 8%, he'd earn about \$72 million a year in interest.

Then if he invested that \$72 million the same way, he'd get about \$5 million or \$6 million in interest.

If he did the same thing with his \$5 million or \$6 million, he'd pick up another \$400,000.

And with that \$400,000—the interest on the interest on the interest of his fortune—he could hire some huge, All-Pro palooka to body slam a quarterback.

For that matter, he could invest that final \$400,000, and the interest on the interest on the interest on the interest would bring in \$32,000—which would satisfy the majority of American families.

Mike Royko
Chicago Tribune

Now, for the next list...

I think I've finally had it with all these wealth lists.

For years, the *FORBES* issue featuring the 400 richest people in America has made millions of us feel poor, but that was almost acceptable.

The business press, after all, always has been quite good at convincing the average well-heeled reader that he or she is a have-not, and this has helped make the country strong.

In September, however, things got out of hand when both *FORBES* and *Fortune*, in a fit of unprecedented synchronized pandering, issued special reports about the richest people *anywhere*, not just in the U.S.

Only billionaires were deemed worthy of inclusion. I, naturally, read every word and was thoroughly appalled...

Do such lists contribute much to the well-being of society? (Whenever columnists ask such a question, of course, the answer is "No." Columnists rarely think anything contributes much to the well-being of society.)

If we're agreed, then, that the answer is "No," are there any lists that business magazines could compile that readers might prefer to see?

For starters, how about a list of the people who lost the most money last year? Such a ranking would make readers feel much better about any unfortunate investments they made over the prior year.

Next would be a list of the heirs who squandered their wealth the fastest...

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Good Prospects for 1988

Current account 1st half 1988:

Group figures	1st half 1988	1st half 1987	Change
Sales	DM 21,381 million	DM 19,481 million	+ 9.8 %
Net income	DM 335 million	DM 304 million	+ 10.2 %
Capital spending for fixed assets	DM 1,236 million	DM 913 million	+ 35.4 %
Employees	83,830 (June 30)	74,130 (Dec. 31)	+ 13.1 %

German corporation with the largest shareholder base

VEBA is wholly in private hands: The capital stock is owned by 600,000 shareholders, 90% of them small investors.

Profits again markedly improved

Compared with the 1st half of 1987, the Group's net income rose by 10%. The deciding factor was the continuing improvement in profits in the chemical sector. Hüls Troisdorf AG, which carries on the chemical and plastics activities of Dynamit Nobel AG taken over on January 1, 1988, was consolidated for the first time. Assuming that the development remains positive, profits are expected to at least match the previous year's good level. Our shareholders will receive a fair share of these profits.

Chemicals rising, electricity and trade gratifying

Once again, PREUSSENELEKTRA and VEBA KRAFTWERKE RUHR made a sizeable contribution to profits. VEBA OEL succeeded in improving its results compared with the same period last year. Norddeutsche Faserwerke was sold as of July 1, 1988. HÜLS is participating to the full in the favourable situation of the chemical industry. The utilization of production facilities was again increased by comparison with the same period last year. The trading companies STINNES and RAAB KARCHER further expanded their market positions.

Continued high volume investment

In addition to the electricity division, the chemical division is the main target for capital spending. A total volume of DM 20 billion is planned for the next five years.

ELECTRICITY

OIL

CHEMICALS

TRADING AND TRANSPORTATION

VEBA

Capital Markets

MONEY & INVESTMENTS

If you're even a moderately well paid executive, you may be worth \$1 million on retirement. But that doesn't mean you can forget about money worries.

POOR MILLIONAIRES

By Ben Webberman



A million dollars isn't what it used to be. Far from putting you on The Four Hundred, it may not be enough for you to retire comfortably.

Suppose you spent your career as a manager, middle- or upper-middle, making \$80,000 a year at the end. You just retired at age 65. Your suburban home, mortgage paid off, may be worth \$300,000. The right you and your spouse have to receive Social Security benefits over the next 25 years is worth something like \$200,000. Then, if you have a halfway decent corporate pension, plus some savings, thrift plan money and other financial assets, your total net worth could easily top \$1 million.

But you wouldn't be rich. Imagine that you could cash out of Social Security and the pension plan, sell the house and put your entire net worth into a single, conservative trust fund. What kind of spendable income would it throw off?

Long Treasuries are paying 9%. With semiannual compounding, \$1 million would generate \$92,000 a year. After federal taxes you might have \$70,000 left. Plow back 5% a year, or \$50,000, to maintain the value of the trust against anticipat-

ed 5% inflation, and what you have is maybe \$20,000 a year to spend, if you don't want to dip into principal. Dipping into principal is okay if you know exactly how long you're going to live, but not many people do.

There are ways to get more than 9% from an investment, but they are risky, and if this is your last \$1 million, you shouldn't be taking risks. Money for retirement should not go into high-risk investments—junk bonds, coins, gems or speculative stocks—even though the payoff could be large.

There are also ways to make a 9% investment look like it's paying a lot more than 9%. Various mortgage-security funds, for instance, are set up this way. But when you sort out the complicated arithmetic you find that you are just getting 9% plus a return of principal.

The foregoing is not a plea for making millionaire retirees eligible for food stamps. It's only a reminder that \$1 million isn't a lot when measured by its income-producing power, which is something like 2% after inflation and taxes.

Inflation cannot be ignored in any retiree's or future retiree's calculations. Suppose you are just starting a lifetime of retirement savings. Put away \$25 a week starting at age 25 and, assuming a constant 9% return on long Treasuries, in 40 years you'll have \$487,000, assuming the saving is done within a tax-free account like a 401(K) thrift plan. Sounds great. But the power of compounding applies to inflation, too. If inflation averages 5%, the dollar of the year 2028 will be worth only 14 of today's cents.

Now let's assume the expected life span of you and your cobenefi-

ciary is almost 25 years, and so you only have to withdraw from your account at a little over 4% a year. That would be roughly the real return on your Treasury bonds. After taxes, your retirement pot might yield about \$21,000 a year—which would have the purchasing power of only \$3,000 in today's money.

In short, if you start out at \$25 a week, you'd better increase your contribution as the years go by.

Such a savings program demands discipline. It demands a commitment that too few younger persons are willing to undertake, when the cash is short today and retirement is so far down the road. Nonetheless, any employee who doesn't have a rich uncle should, at a minimum, take full advantage of the profit sharing thrift plan his company offers, especially a 401(K), which builds savings without immediate taxes. If they let you chip in up to 10% of your salary, chip in 10%, up to the ceiling permitted in the tax law (currently, \$7,300 a year).

When you're 40, about 60% of your new savings should go into bonds and 40% into conservative stocks. If you're 60, think more in terms of a 75% or 80% allocation for fixed-income securities and the balance for equities.

As important as it is to start a retirement program early, it is urgent to think about conversion of the savings portfolio to a retirement portfolio. Tax angles become very important, especially for someone with a combined \$750,000 or more in all thrift, IRA and Keogh plans. The FORBES Money Guide (June 27) outlines the rules, but in the end you will almost certainly need to hire an expert to help make the decision. John L. Steffens, president of Merrill Lynch Consumer Markets, says that most people will be better off with the IRA rollover. But Lorraine Tsavaris, vice president at U.S. Trust, says high-bracket savers should crunch the numbers, paying particular attention to the new "excise" tax on large distributions from tax-deferred plans.

If you do take the lump sum and pay tax immediately, what's left should probably go into municipal bonds, which are still a bargain on maturities of seven years or longer. If you keep the money in a tax-sheltered IRA, a portfolio of U.S. Treasuries, with maturities staggered over the next 20 years, would be in order. ■

Ben Webberman is a contributing editor of FORBES magazine.

It's not easy to hold on to a fortune once you have amassed it, but it can be done. Here are a few suggestions.

DISSIPATION OF WEALTH

By David Dreman



We all get unlimited advice on how to make our fortunes, but very little is written about how to hang on to your nest egg once it's built.

To see how tough it is to preserve capital, look back on the first Rich List, compiled by B.C. Forbes back in 1918 (FORBES, October 1983). Today only six or seven of the original families are still there. Guess how many of the thousand wealthiest New York families that made the 1845 Rich List of Yale Moses Beach are left today? If you guessed none, you are right.

Is there a way to protect your capital over time, given the nature of the problem? Like most investment questions, there is no quick fix, but there are a number of steps that you can take that should help preserve your net worth.

The most important is to diversify your assets. Large numbers of people who have inherited wealth have left a good part or most of it in the business that built the fortune through loyalty, guilt or the belief that it would continue to grow. Trouble is that the very dynamics of change in our economy that al-

lowed the wealth to be created in the first place often makes the same business obsolescent as new industries and services supersede it. Thus, canal bonds and stocks were great investments in the 18th and early 19th centuries until the railroads came along. And so it goes.

The first lesson in the preservation of capital, then, is to move as much as you can from the original source over time and put the funds into a variety of good investments.

The second important step is to find a first-rate financial adviser and get his or her assistance for tax planning and investment strategies for your heirs. The classic story of creating an empire through a brilliant will and excellent executors is that of William Randolph Hearst (FORBES, Dec. 14, 1987). After his death the fortune multiplied many times. While few have the foresight of Hearst, you can certainly find good people and leave them with well-defined guidelines to manage your estate.

One of the things not to do is make your friend, "Good Old Harry," down at the trust department of the local bank, your executor. It is invariably the popular thing to do, but it is just as invariably wrong.

Thus, Harry was likely to buy low-yielding government bonds in the Forties and Fifties, because they had been absolutely safe for generations, only to see inflation, much higher interest rates and taxes dissipate most of the capital. Harry also liked to buy the trendy one-decision stocks in 1971-72 or 1980-82 with P/E's of up to 100 times earnings, or to be heavily invested in stocks last year, because all the other "good old boys" also believed it prudent, re-

sulting in the immolation of another good part of their clients' capital.

My advice is not to lock yourself into a bank trust department. Their long-term record for managing money is mediocre. Rather, find a good executor (or executors) and plan a solid strategy for the future.

As you move money out of your major business, it is important to have a good diversification plan and to stick to it. An important idea is to treat your capital as a major pension fund would, planning out 30 or even 40 years. It's not nearly as complicated as it sounds. Pension plan sponsors have become very sophisticated in recent years and realize that to keep increasing assets they need the compounding of interest and dividends, they need to know the long-term rates of return of stocks, bonds, real estate and other assets, and then they must choose a diversified portfolio mix. Most important, once pension fund goals are set, they do not change the asset mix because stocks or bonds are doing better or worse for short periods of time. Rather, they stick to their original goals, knowing that over time the rates of return and the fruits of diversification will pay off.

If, for example, you set an asset mix of 50% blue-chip stocks, 45% bonds (or part of the bond sector in good, income-producing real estate) and 5% in precious metals as an inflation hedge, stick to it. I believe as much money has been lost by the Good Old Harrys' following the latest sure thing as has been paid out in estate taxes over the years.

For the equity portion of your portfolio here are two stocks I would look at today.

Ford (51). If a company has increased earnings for five consecutive years and this year should be 350% above peak income of a decade ago, and it has a 25%-plus return on capital, what is it worth? If it's an auto company, the market says under five times earnings. With record earnings likely this year and only a small decline expected in 1989, Ford appears extremely undervalued. The stock currently yields 4.7%, and the dividend will probably be hiked again in the first part of 1989.

Pfizer (54), a leading pharmaceutical, should show earnings growth of 15% this year and continue gains of over 10% for the next several years at the least. Pfizer trades at a P/E of 12 and yields 3.7%. ■

David Dreman is managing director of Dreman Value Management Inc., investment counsel, New York, and author of The New Contrarian Investment Strategy.

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Chicago Board of Trade

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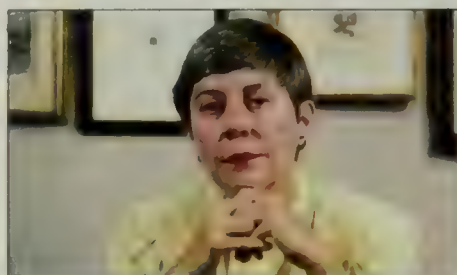
Stock Trends

MONEY & INVESTMENTS

The rich have enough money to want more than money from their investments.

PICKY, PICKY RICH PICKS

By Ann C. Brown



Not only are the rich very different from thee and me, they are very, very different from one another. Over the years, I have worked with the glitzy rich, the reclusive rich, the self-made rich, the trust-fund rich, the hippy rich, the dippy rich, the tightfisted rich, the frightened rich, the guilty rich and the "make-me-rich-richer-richest" rich, to name a few extremes. Each of these affluents has his or her unique set of investment preferences, and those of us in the custom portfolio business quickly learn to tailor our selections to fit temperaments as well as financial needs and objectives.

The rich have enough money to want more than money from their investments. I have advised heavy metal rock stars who want safety and low risk, elderly widows eager for excitement and trading action, and old-money heirs pursuing new issues, new concepts, new products. Some of the rich seek peace of mind. Others are only happy when they worry. Some delight in researching their own ideas. More leave the driving to us, once they know their car is headed in the right direction.

I have counseled business execu-

tives who wouldn't touch a competitor's stock, physicians who are addicted to drug companies, and lawyers who shun firms involved in serious litigation. I've met the rich who buy stock in companies because their dog likes the food or because their grandniece's husband joined the training program or because the company is very supportive of charitable causes. I've been told not to invest in companies doing business in South Africa. Or not to buy stock of companies involved in the manufacture and/or distribution of tobacco or alcohol products—or the instruments of war.

Because of my clients' many and varied stock interests, I am ceaselessly combing the market for all kinds of buys. For example, *the Limited, Inc.* (23) appeals to the bargain-conscious rich. According to haute couture sources in haute places, the new, less radical fashions are being bought briskly after last year's skimpy-skirt strike. LTD is selling at less than half its last year's high of \$53 per share, and earnings could grow 20% to 25% annually for the next several years. Estimated earnings per share for fiscal 1989 (ending January 1990) are \$1.75, up from an expected \$1.15 to \$1.25 this year.

Then there are the wealthy who are looking for high income from their abundant assets. While direct ownership of bonds is the usual vehicle, occasionally the rich will consider something like the *Global Yield Fund* (9), a closed-end investment company that currently returns substantially more than U.S. long-term debt instruments. Besides its above-average yield, PGY offers international debt diversification as well as a way to hedge

against the very real possibility of a renewed decline in the dollar.

Another attractive stock with hedging advantages—this time against inflation—is *Homestake Mining* (13), the largest U.S. gold producer. Here again, many of the rich choose to trade gold in the commodity market, but some prefer to participate through gold equities. Although it appears that the price of the metal could drop another 10% to 15%, HM has managed to stay above \$10 per share for the last six years, and could be a profitable buy should it reach this level.

Emerging growth companies have always attracted the rich, many of whom are as wealthy as they are because some astute ancestor bought GM or XON or IBM—and held. At the current price, the risk in *Genentech* (18) seems far less than its price potential reward. GNE is selling where it was in early 1986, but the estimated earnings per share of \$1.25 for 1989 are more than twice those of three years ago.

Some of the wealthiest individuals wouldn't be caught dead buying a lottery ticket or entering a casino, but they will gamble thousands on the possibility that a company will be a merger or takeover candidate. In a slow market, like the one of late, this is where most of the major gains have come from, which keeps the big players in the game. *Diebold* (37), with its unleveraged balance sheet, undervalued assets, large cash position and good cash flow, looks tempting for the acquisition-minded. Estimated fair market value: \$60 to \$65 per share.

Low-priced stocks for high-worth folks? You bet. Not for all, but some rich investors are hooked on single-digit equities. For them, a stock like *MicroPro International* (3) could be downright irresistible. The company manufactures the WordStar word processing program and its newest version should help boost earnings. The stock could be worth around \$5 per share, which doesn't seem like much—except to a rich person with a quick mind for figures where this translates into a potential 65% gain—perhaps in less than a year.

Finally, my blue chip for blue bloods remains *Eastman Kodak* (44). The stock continues to sell below its recent historical P/E ratio, and the 4.5% dividend yield should help support the price in the event of any more unpleasant surprises. ■

Ann C. Brown is chief executive officer of the advisory and portfolio consulting firm of A.C. Brown & Associates.

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ANYTHING THAT CAN HAPPEN . . . PROBABLY WILL

By Kenneth L. Fisher



Imagine how David Packard would feel today if he had sold his Hewlett-Packard stock the first time he ran into a potentially dicey stock market. Bill Hewlett would have laughed at him for decades—all the way to The Forbes Four Hundred.

Investor sentiment toward stocks is amazingly low these days, maybe rightfully so. But in the long term it never pays to be a bear. In pondering this issue's list of the 400 richest, it is wise to note that they didn't get there by being holders of cash, or even bonds. They did so by owning either a business (equity) or real estate. Note Messrs. Walton, Kluge, Perot, Packard, Buffett. They were all long-term bulls.

And then look at two who aren't on the list—professors Roger G. Ibbotson and Rex A. Sinquefeld. They engaged in a classic study, which is available in most libraries, sponsored by the Financial Analysts Research Foundation. Starting in the mid-1920s, before the Great Depression, it shows quite clearly that the average New York Stock Exchange stock did about 6% per year better on average over the last 60 years than did Treasury bills, long-term govern-

ment bonds or inflation.

Why did stocks do better over the last 60 years? Probably for the reason I expect them to do better over the next 60 years. Stock represents business ownership. And businesses are run by adaptable people who can change with a changing world.

How similar is Hewlett-Packard's product line today to 20, 30 or 40 years ago? About zip. Pick a retailer—any retailer. How similar is its inventory today to a generation back? Industry by industry and firm by firm, you see the same thing.

Don't get me wrong. I'm not suggesting throwing caution to the wind. But don't let bearishness override your long-term best interests. Unless you can turn on a dime, which darn few can do, big bearishness will hurt you. Meet some of my social friends.

These are folks with tiny stock positions now selling out completely. A year ago they loved stocks, but since the crash they have become ever more bearish. Their rationale includes all the standard stuff: pre-election jitters, postelection tax hikes, upcoming recession, high interest rates and a world that's headed to hell in a handbasket.

One of them got some kind of feeling in the middle of the night—woke up and decided he didn't need "this kind of risk." Another thinks it too risky to own anything that might be "high risk," regardless of how small the position. A third decided he would buy stocks again, but only after interest rates come down "to maybe 4%." He couldn't quite get that by the time rates fell that massively, stocks would already be much higher.

Invariably they feel they can buy

stocks again later, "when the future is clearer." But my question to my friends is, "If you will be able to see when to get back in, why couldn't you warn me of the risks in stocks last year at much higher prices? You loved them then. And why weren't you buying big after the crash? You started your selling then."

They don't get it. Fear is highest around market bottoms, when it's the best time to buy. But they won't be able to. The essence of money management is weighing possibilities against probabilities and going against your gut. Years ago, John Larson of Brobeck, Phleger & Harrison, who thinks more like a businessman than any lawyer I have met, told me, "Anything can happen—probably will." By that he meant that the most probable event is usually less likely than the sum of all other possibilities.

That's what a portfolio must deal with. If I am bearish, I think the odds are greatest for stocks to fall. But that doesn't mean they will. Anything can happen. So despite what I may fear as the highest probability, I don't sell out completely. I protect myself from my own foolish inclinations so that if I'm wrong my portfolio won't suffer too much.

Since spring my firm has been relatively bearish because, as medium-capitalization stocks rose much more than larger-cap stocks, the valuation spread between these two largely vanished—we couldn't find many stocks meeting both our quantitative and qualitative screening rules. Not finding many stocks to meet our needs, we bought few. By me, that's bearishness. Arthur S. Bechhoefer, a reader, recently groused in a letter that he was stunned to learn that "Ken Fisher in his Sept. 5 article had gone from a bull to a bear to a chicken."

Well, Mr. Bechhoefer, I have always been a chicken, and proud of it. And I have usually been a bull. And even when I'm not bullish, I'm eager to hold unpopular, beat-up stocks of good companies in small positions in a well-diversified portfolio. And if I could find new ones right now, despite any and all bearish factors, I would be buying them.

As I said last month, I'm holding the stocks I have suggested recently, and a lot of cash—and waiting. If more bargains appear, hallelujah. If not, at least I have some of what made The Forbes Four Hundred special—equity. ■

Kenneth L. Fisher is a Woodside, Calif., based money manager. He has written two books, The Wall Street Wagon and Super Stocks.

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Jesse Livermore could have made The Forbes Four Hundred in 1925, but he died a pauper in 1940. How then should we judge his investment career?

RUN OF LUCK?

By Mark Hulbert



Diamonds may be forever, but what about investment success? The occasion for this somber thought is the publication of the 1988 edition of *The Forbes Four Hundred*. Most of us might think any speculator successful enough to make it to the list had quite sufficiently demonstrated his market prowess. A business school professor, however, might suggest unpleasantly that it was all due to luck—particularly if the speculator subsequently cratered, as they often do.

Is this fair? I don't think necessarily so. A classic example is the life of Jesse Livermore, the notorious speculator of the 1920s and 1930s. Livermore declared bankruptcy four times during his career and never recovered from the last one, ultimately committing suicide. It's hard to estimate his wealth, of course, but it's clear that at his most successful he was certainly *Forbes Four Hundred* class.

You need a net worth of some \$225 million to make it onto this year's list. In 1925 dollars, that's about \$20 million. In just one of his trades in 1925 Livermore made a

profit exceeding \$10 million. And he was already a millionaire several times over. In today's terms, that's the equivalent of making it half way to membership in *The Forbes Four Hundred* in one trade.

(Actually you couldn't repeat Livermore's feat today. He shorted 50 million bushels of wheat: CFTC rules now restrict shorts to 9 million bushels at most. Livermore himself blamed the increasing regulation of financial markets after the 1929 crash for his inability to recover from his fourth bankruptcy. The first three times, he eventually fully repaid all his creditors.)

If we insist on taking the longest perspective possible—his life—then Livermore's investment career must be judged a failure: He died a poor man. But it is significant that heavyweight modern admirers think there's something of value in his investment approach and philosophy. Thus Martin Zweig of the *Zweig Forecast*, which has the best overall record of any of the newsletters whose performance I monitor in my *Hulbert Financial Digest*, wrote in his book *Winning on Wall Street* (Warner Books, \$20) that "if there is anyone who is even close to being my hero, . . . it is Livermore."

While Livermore's rags to riches to rags story is spectacular, the phenomenon it illustrates is by no means unique. None of the newsletter editors I follow is as wealthy as Livermore—although the late Arnold Bernhard, founder of *Value Line* and by coincidence once an employee of Livermore's, was one of last year's *Forbes Four Hundred*, with an estimated net worth of \$390 million. But there are some letters that, despite having failed to do better

than a buy-and-hold strategy over long periods, have nevertheless put together remarkable streaks of winning trades. An insistence that we overlook them because they have underperformed the market over the long term ignores the possibility that those "runs" of performance are statistically significant.

How can we tell if they are? How can we find out whether an adviser has had a noteworthy string of winning trades, in contrast to mere random luck? Statisticians have a ready answer: apply a "runs" test to see if an adviser's winning streak is consistent with randomness.

An example of how this test can be applied comes in the case of *The Option Advisor*, whose editors have complained that in previous *FORBES* columns I dwelled on the fact that in 1983 their "Conservative Portfolio" lost a very unconservative 83.5%. In the nearly six years since, they argue, that portfolio has performed impressively (up 631%, according to me). Even though that is not enough to erase their 1983 loss and make it back to where they would be had they simply bought the average stock, isn't a 631% gain over nearly six years significant enough to discount 1983?

The statistician's answer is no. Impressive as has been the post-1983 performance of the "Conservative Portfolio," it fails the "runs" test. The large loss in 1983, as well as the strings of gains since, are not sufficiently different from what one would expect from a random series to overcome the statistician's skepticism.

It is important to understand precisely what this means. Just because *The Option Advisor* cannot prove its performance was not the result of random chance does not mean that random chance really is responsible for its results. And it may be that the letter's subscribers could not care less (although they should be cautious). But the question interests me because of its implications for the efficient-market dogma that the market cannot be beaten.

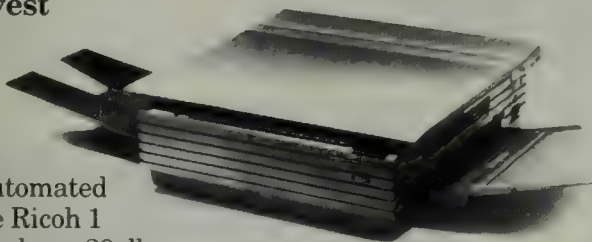
Several other newsletters do pass the runs test, and I will discuss them in subsequent columns. But the fact that some did pass it should caution us against comparing performance only from a very long-term perspective. That, and Livermore's example, are worth remembering while studying *The Forbes Four Hundred*. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest and author of the second Hulbert Financial Digest Manual, published by Amerasia Books.

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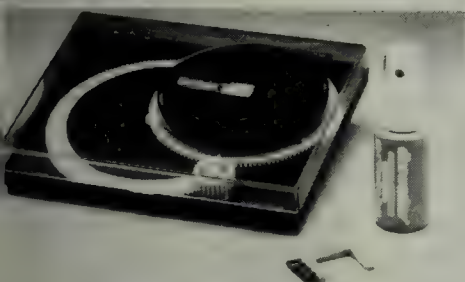
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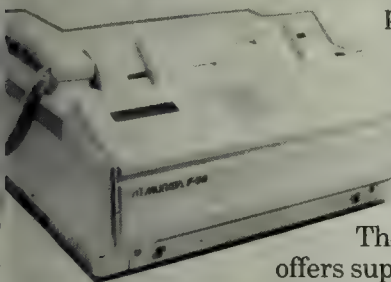


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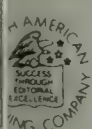
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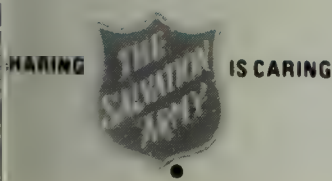
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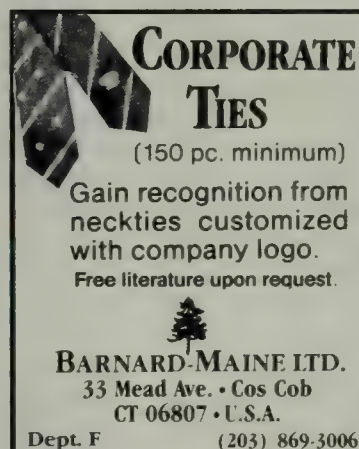
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Cabot caveats

For two years Samuel Heyman's GAF Corp. sat quietly with 4.9% of fellow specialty chemicals maker Cabot Corp. (sales, an estimated \$1.66 billion in 1988). Suddenly, in August, GAF asked the Securities & Exchange Commission for clearance to raise that stake to 25%. The stock of Waltham, Mass.-based Cabot has since run up from 34 to around 40, on speculation that Heyman or someone else was readying a hostile bid. Some analysts put Cabot's value at around \$65 a share. Stated book value: \$22.50.

Cabot does indeed have some exciting things going for it. Its crown jewel is its specialty chemicals and materials group, which accounts for more than half of sales and over 90% of profits. The main product is carbon black, an oil-based reinforcing agent in rubber and plastics and a pigment in inks, coatings and plastics. Cabot dominates the carbon black market, manufacturing some 25% of the Free World's supply. The business will likely chalk up record profits in 1989.

Much less inviting, however, is Cabot's lagging energy business. Its main concern is the processing, distribution and transmission of natural gas. It operates gas gathering systems in Appalachia and owns a big intra-state system in Texas. In New England it sells wholesale liquefied natural gas shipped from Algeria. For profits to come back, the gas glut must ease in the Northeast.

On fundamentals, Cabot is no bargain. For the fiscal year ended Sept. 30, analysts estimate it earned \$2.25 a share. For the year just beginning, expect roughly \$2.80 a share.

So the market is clearly pricing Cabot as a takeover stock. But note, please, that the founding Cabot family owns about 35% of the 27 million shares. Also, Cabot has tough poison pill provisions. If no deal materializes, the stock could easily sink back into the low 30s.

"My astrologer's away"

Readers unsure about where the market is headed are in good company. "It's a confusing period, and I think you just have to say that straight out. Frankly, our clients are

very happy to hear that we're as stupid as they are. Why should I tell them something that I don't understand myself? What the hell good does that do?"

That refreshing, if frustrating, candor comes from John Weinberg, chairman of Goldman, Sachs & Co. The market's malaise knocked him off The Forbes Four Hundred after a brief appearance last year. Not that the low-profile Weinberg, 63, is greatly worried. His interests in Goldman and assorted other holdings are still worth an estimated \$200 million.

So what is Weinberg telling clients these days? "As far as Goldman, Sachs is concerned, we're so close to the forest we don't even see trees," replies



Goldman, Sachs chief John Weinberg
Refreshing, if frustrating, candor.

Weinberg. "I have clients tell me the three or four most important factors today in the economy and the world and so forth. From that, I try to make my judgment about what is going to happen."

Apparently Goldman's clients are as puzzled and uncommitted as Weinberg. "It's very clear that people can't make up their minds. So they do nothing. They're worried about the deficit, the election, business conditions and business activity. They want to see how all those things go. These are the things people have to look at today. You can't just watch the leading indicator of railroad cars.

"People also have to understand that we now have a global economy. The economics in one country are certainly interesting, but their importance is really in how they affect everyone else's economy. Because of deregulation in markets around the world, it's a lot more complex. That's what makes it so interesting. But it will cause greater volatility, rather than less. There's not very much an

investor can do to protect against this. After we've lived with the global market for a while, maybe we'll know how to deal with it better."

Over the next six months, will that added volatility be around an increasing stock market trend, or a downward-sloping one? "I cannot answer," says Weinberg. "My gut really doesn't say much. Besides, my economist is out of town. And my astrologer is away, too." With so much uncertainty around, perhaps it's time for the few with strong convictions to act on them. —Ralph King Jr.

Capitalist tools

The U.S. machine tool industry's woes are yesterday's news. Now, owing to the effect of voluntary restraint agreements and the U.S. industrial revival, U.S. machine tool companies are slowly becoming competitive once more. Orders are on the rise. Moreover, analyst Mitchell Quain of Wertheim Schroder says machine toolers will be helped immeasurably by the coming shortage of U.S. machinists he sees for the 1990s. As concern mounts over the impact of impending retirements in the next decade, predicts Quain, the move toward automation should accelerate.

At Monarch Machine Tool and Hurco Cos., where earnings collapsed in 1982 and stayed deeply depressed through 1987, Quain definitely detects signs of a turn. Sidney, Ohio-based Monarch (estimated 1988 sales, \$90 million) manufactures computer-controlled turning machines and machining centers. In August, backlogs were estimated to have been double what they were in May. He expects Monarch to earn 40 cents a share this year, versus 12 cents in 1987. Next year he's looking for \$1.50 a share. He also likes Monarch's balance sheet; there is \$3.60 a share of cash in the till and no long-term debt. Monarch's recent NYSE price: 15¾.

Hurco, based in Indianapolis, makes microprocessor-based numerically controlled metalworking equipment for improving productivity. For the fiscal year ending Oct. 31, Quain thinks Hurco will earn about \$3.9 million, or roughly \$1 a share, on sales of \$60 million. Last year earnings were just 22 cents a share. He's estimating \$1.25 in 1989. Hurco Cos. was recently 8¼, o-t-c.

One caveat here: Both stocks are thin, so accumulate them slowly. Monarch has 3.7 million shares; Hurco has 4 million shares, 60% owned by insiders.

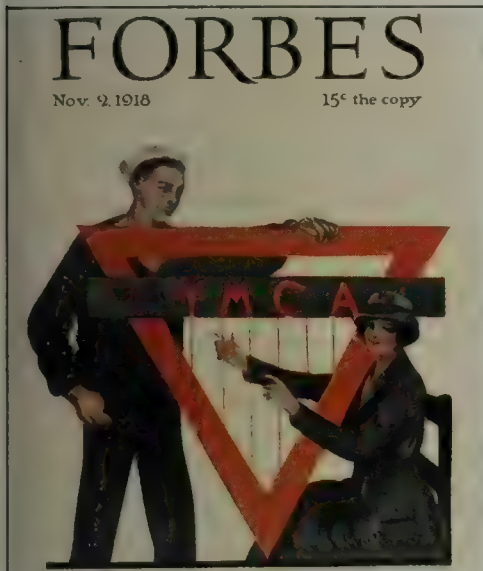
Flashbacks

Edited by Dero A. Saunders

"The more things change. . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of November 2, 1918)



In World War I, the YMCA played the role of the USO a generation later

"What would you give to be able to entertain your boy in France for a weekend or an evening? A goodly sum, wouldn't you? Well, you can entertain him for an evening or a weekend! You can do it by handing the necessary money to the United War Fund. The Y.M.C.A. or the K. of C. or the Salvation Army or the Jewish Welfare Board will then see that he is entertained on your behalf."

Sixty years ago

(From the issue of November 1, 1928)

"In my opinion the stock market will experience excitement before the year ends. First, there may be an extremely spectacular demonstration by the bulls. Then, a sudden and sharp relapse would be logical."

—B.C. Forbes

"The average independent merchant with whom we compete thinks only of the lower prices at which we can buy. In his frenzied efforts to overcome that edge we have on him, they overlook the really important factor that gives us our biggest advantage. That factor is turnover. Taking the year round, we do not buy much lower than the average shrewd independent retailer, but where we get the edge on him is in turning our stock about twice as fast as he turns his."

—Chain store executive

Fifty years ago

(From the issue of November 1, 1938)

"After years of unsubstantiated rumors that television is 'just around the corner,' manufacturers now declare officially through the Radio Manufacturers Association that tele-receiving sets will be put on sale during the coming spring. . . Cost of sets will range from \$150 to \$1,000, with some types reproducing pictures only, others both pictures and sound, and still others combining all-wave radio and television receivers and phonograph in one unit."

"When ex-office-boy William M. Jeffers was elected president of the Union Pacific last year, he found the presidential office banked with flowers the morning he moved in. The very dignified president of another railroad was visiting him when a retired U.P. switchman, an old buddy, was announced. Ushered in, he surveyed the big office and its exuberance of floral tributes, then ejaculated, 'Bill, you son-of-a-gun, you've made it! I've worried about you a lot, but from now on, you're on your own.'"

Twenty-five years ago

(From the issue of November 1, 1963)

"Introduced 25 years ago last month, nylon at first was synonymous with women's stockings. Today hosiery still takes 45 million pounds of nylon a year. But of the estimated 600 million pounds to be produced in 1963, tires will use some 210 million pounds, carpets 100 million, apparel fabrics 75 million and industrial applications 70 million."

"Americans may be gobbling up Volkswagens, but back where VW comes from, two American-owned companies are steadily cutting Volkswagenwerk, A.G. down to size. The West German auto market is booming; this year, West Germans are expected to buy 1.3 million new cars, more than twice as many as they did only six years ago. It's not VW that's cleaning up, however; it's General Motors' Opel and Ford's Taurus."

Ten years ago

(From the issue of October 30, 1978)

"Nipper, the fox terrier that first cocked an ear for phonograph records almost 80 years ago, is getting a new lease on life from RCA, 'his master's voice' since 1929, when it bought up



Giant statue of Nipper, the RCA Victor dog, listening to "his master's voice"

Victor records. The company plans to revive the mascot next year in \$8 million worth of product advertising. . . The revival of the trademark, created in the 1890s by London photographer-painter Francis Barraud, was prompted by a study ordered by RCA President Edgar H. Griffiths in 1976."

"Although few firms match the \$1.5 million Broadway-style show and breakfast that privately held Milliken Co. holds for its textile buyers annually, dozens of other firms now have seven-figure budgets for singers, musicians and dancers. . . Just this spring various IBM divisions, for example, presented at least seven shows for key employees in Hawaii and Phoenix with top-liners like Glen Campbell and Paul Anka."

"At elegant old Woodlawn Cemetery in the Bronx, where Herman Melville and Duke Ellington are buried, the top-of-the-line is an \$80,000 family-sized mausoleum room in a good location. In Hawaii, a grave site with ocean view overlooking Diamond Head runs \$1,250. A grave near waterfalls among the Dallas live oaks is \$800, and at California's famous Forest Lawn Memorial Park, a 35-square-foot plot goes for \$2,000. That's one reason the nation's privately owned cemeteries . . . are doing well."

I wish to become rich, so that I can instruct the people and glorify honest poverty a little, like those kind-hearted, fat, benevolent people do.
MARK TWAIN

I love money; just to be in the room with a millionaire makes me feel less forlorn.
LOGAN PEARSALL SMITH

The rich are the real outcasts of society, and special missions should be organized for them.
NORMAN MACLEOD

The mere material world suggests to us no concepts of good or evil, because we can discern in it no system or grades of value.
ALFRED NORTH WHITEHEAD

The majority of men devote the greater part of their lives to making their remaining years unhappy.
JEAN DE LA BRUYÈRE

Men who pass most comfortably through the world are those who possess good digestions and hard hearts.
HARRIET MARTINEAU

Whoever does not regard what he has as most ample wealth, is unhappy, though he is master of the world.
EPICURUS

Society is made up of two great classes: those who have more dinners than appetite, and those who have more appetite than dinners.
NICOLAS CHAMFORT

To be thought rich is as good as to be rich.
WILLIAM MAKEPEACE THACKERAY

Thoughts on the Business of Life

Take a thousand millionaires and a thousand workmen. Which group can sleep the better and eat the better? Which have the quieter mind? Which have the more tranquil, satisfying lives? Millionaires are two classes: those who are slaves to business and those who are slaves to pleasures. The exceptions observe moderation in all things. They accept their wealth as an instrument to be used for the betterment of humanity. They spend a rational amount of time and thought on giving as well as on getting, in distributing as well as accumulating.
B.C. FORBES

There are men who are happy without knowing it.
VAUVENARGUES

It is only when the rich are sick that they feel the impotence of wealth.
CHARLES CALEB COLTON

It's pretty hard to tell what does bring happiness; poverty and wealth have both failed.
KIN HUBBARD

He who draws upon his own resources easily comes to an end of his own wealth.
WILLIAM HAZLITT

More than 6,000 "Thoughts," indexed by author and subject, are available in a two-volume boxed set at \$31.95 (\$18.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: \$18.50. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add sales tax on orders in New York State and other states where applicable.

Morality is the best of all devices for leading mankind by the nose.
FRIEDRICH NIETZSCHE

The suffering of the rich is among the sweetest pleasures of the poor.
R.M. HUBER

Comfort, n. A state of mind produced by contemplation of a neighbor's uneasiness.
AMBROSE BIERCE

The secret of happiness is renunciation.
ANDREW CARNEGIE

The passion of acquiring riches in order to support a vain expense, corrupts the purest souls.
FRANÇOIS FÉNELON

A Text . . .
He that despiseth his neighbour sinneth: but he that hath mercy on the poor, happy is he.
PROVERBS 14:21

Sent in by Sharon Earl, Buffalo, N.Y. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Seek not happiness too greedily, and be not fearful of unhappiness.
LAO-TZU

Every success is ignominious; we never get over it—in our own eyes, of course.
E.M. CIORAN

DEWAR'S PROFILE:

JEREMIAH TOWER

HOME: San Francisco, California.

AGE: 45.

PROFESSION: Head chef and owner, Stars.

HOBBY: Running the Society to Stamp Out Kiwis. "The fruit, not the bird."

LAST BOOK READ: *Broad and Circuses*, Patrick Brantlinger.

LATEST ACCOMPLISHMENT: Wrote a cookbook, *New American Classics*, featuring such recipes as Eggs in Hell, Texas Style.

WHY I DO WHAT I DO: "With a B.A. and M.A. in architecture from Harvard it's hard to explain, but it's a lot of fun."

QUOTE: "Fresh herbs."

PROFILE: Aristocratic, confident and a self-described monarchist.

"Everyone likes to have things his own way. I just admit it."

HIS SCOTCH: Dewar's.

"White Label," with soda. "I particularly enjoy something I don't have to cook."



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Forbes

IS THE PROSPERITY HOLLOW?



Is debt out of control...

Do we owe too much to foreigners...

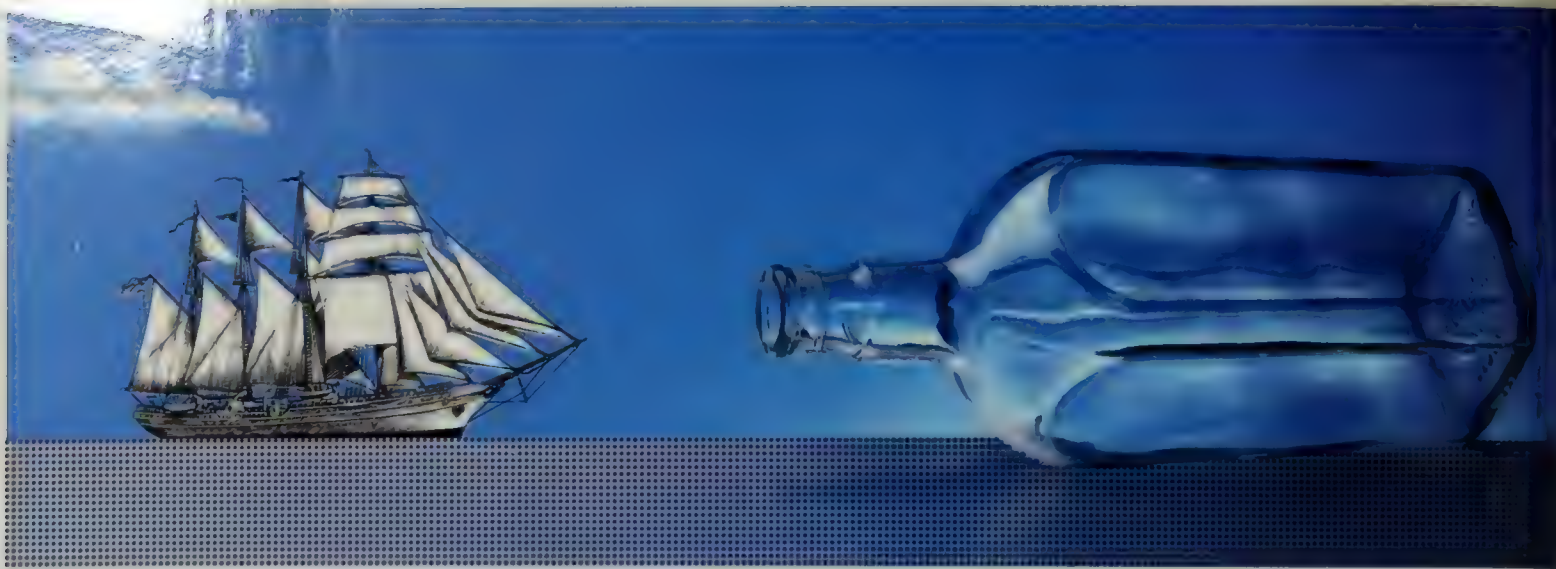
Are we really living beyond our means...

Has

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"WHY I BOUGHT THE PLAZA"

“

A

ll of my life I have been asked, 'What is the great hotel of New York?'

In London, Paris, Rome and most other world-class cities, there is a single great hotel that can easily be pointed to as standing above the rest.

In New York City, the greatest city in the world, there has been no such hotel since The Plaza reigned supreme. Since then, there has not been that single, wonderful hotel that New Yorkers could point to with pride.

Although there are some fine hotels in New York, their service, room quality and location are a distant second to the world's best.

The Plaza is New York City's single best location and has the finest physical plant. There are no better rooms or suites anywhere in the world. The ballroom is said by all to be 'far and away the most beautiful room of its kind in New York City.'

The Plaza has everything it takes to be 'the great hotel of New York.' It has been designated a National Historic Landmark as well as a New York City Landmark. All of its rooms have been painstakingly restored; their original spacious dimensions and architectural details are now fully in place.

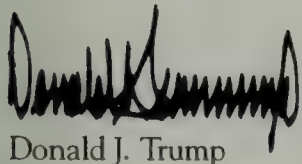
But having the best rooms and the best location is not good enough. When large public corporations are involved, the mystique and quality of management can disappear.

The Plaza will again be *the* place to be after theater. *The* hotel for afternoon tea, for big weddings, for wonderful restaurants. The Plaza will be *the* hotel in which royalty stays when in New York.

The Plaza will be, quite simply, *The Plaza*.

I haven't purchased a building, I have purchased a masterpiece—the Mona Lisa.

For the first time in my life, I have knowingly made a deal which was not economic—for I can never justify the price I paid, no matter how successful The Plaza becomes. What I have done, however, is to give to New York City the opportunity to have a hotel which transcends all others! *The Plaza* will transcend all others! I am committed to making The Plaza New York's single great hotel, perhaps the greatest hotel in the world."


Donald J. Trump



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No one has ever tried it before. But for Audi, it is the logical next step in luxury cars.

It's called the Audi Advantage. And quite simply, it redefines the risks of ownership.

How? With exclusive protection no other car maker can match. Designed to provide security for you and your Audi from delivery to trade-in.

For example, for the first three years or 50,000 miles, the no-charge maintenance and limited warranty of the Audi Advantage* means all repairs, all scheduled maintenance, all routine oil changes are all paid for. The wheel alignments, the brake pads, the wiper blades, you name it. Even normal wear-and-tear is covered, except for tires and soft trim, of course.

In short, it pays for virtually everything but gasoline.

(An owner still has a few responsibilities, after all; so there's some inevitable fine print about negligence and accidents.)

The Audi Advantage also offers 24-Hour Roadside assistance. A full decade of corrosion protection. And welcome security at trade-in time. Thanks to a Guaranteed Resale Index that certifies trade-in value.

It is, in total, a better way to own a car. But it would be possible had not Audi created a better car to own. The new 100/200 Series. This is no mere restyling. This is rethinking from the inside out. The result? Over 1500 design improvements.

The permanent all-wheel drive Quattro system, for instance, has evolved to its second generation; a torque-sensing differential provides more consistent control, even under inconsistent conditions. The powerful four-wheel disc brakes have been finessed and combined with ABS.

Audi Introduces And A Better Way



ock Braking), to stop with quiet authority. And for
er performance, the sophisticated electronic fuel injec-
been retooled and recrafted.
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ark, is an even sleeker piece of efficient elegance.
ish door handles and new aero wheels.
side, intelligent details and luxurious touches abound.
wood defines the driver's environment. A self-
ing system monitors 13
: functions. An anti-theft
standard. So is the
There's even a private
one jack for rear-seat
ers. Everything has
apted, adjusted and

arranged to heighten driver control and reduce driver stress.

This is luxury based on logic. And only the driver's seat
can do it true justice. So arrange for a test drive.

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of two things. You chose a better car to own. And a better
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Audi Today: The New 100/200 Series.

Better Car To Own. To Own A Car.





Cover illustration by Stephen Johnson



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Knee-jerk journalism

In early October, Managing Editor Sheldon Zalaznick took a phone call from a writer at a well-known magazine. The writer was doing a roundup on how the various publications planned to mark the first anniversary of the 1987 stock market crash. What were FORBES' plans in this regard? "We don't have any," Zalaznick told the reporter, adding: "What's so special about an anniversary?" The reporter seemed taken aback—everybody else was memorializing the infamous event in word and picture.

What everybody else was doing was indulging in knee-jerk journalism. An anniversary becomes a media event even if nothing new is to be said.

It was the same knee-jerk journalism a year ago that caused most of the media to shout "1929!" when Black Monday happened and caused most of the media and the so-called experts to predict that the crash would bring on a depression or at least a recession. I'm happy to say that our knees didn't jerk. In an early issue after the crash (Nov. 30, 1987), our cover predicted: "More bumps ahead, but no depression."

We ran an article accompanied by a series of charts that cut through the then prevalent hysteria to show that few market crashes actually ushered in recession or depression. We put things in perspective.

In a similar spirit of cliché-busting, the cover story in this issue examines some myths and conceptions about the economy. "Is the Reagan prosperity for real?" richly illustrated with charts and hard-to-refute facts, begins on page 85. It is by Peter Brimelow, who has written for us on subjects as varied as education, gold, legal policy and the stock market. He has a degree in history and economics from the University of Sussex in England and an M.B.A. from Stanford. Some of his conclusions, flying in the face of conventional wisdom, may surprise you, but we think they will prove as valid as our conclusion last year that the stock market crash would not disrupt the general prosperity.

Comp/Comm

Just four issues old, our Computers/Communications section, edited by Assistant Managing Editor William Baldwin, is flying high. Along with the related Technology section it includes five articles this time and covers such topics as ultrasonics, Unix, publishing software, and competition between cellular and wire telephones. A highlight is a case history of how a high-tech startup with a good product and plenty of financing nearly floundered on a bad marketing plan. The section starts on page 134. Even those who are not computer or technology buffs will, we think, find the section user-friendly.

James W. Michaels
Editor

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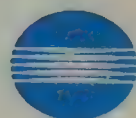
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Follow-Through

Rocky times for Rockresorts

May 16, 1988

William Pitt III

Susan Steinkamp/Picture Group



When Laurance Rockefeller sold his exclusive Rockresorts hotels, including the famous Caneel Bay resort in the U.S. Virgin Islands, to railroad giant CSX, more than one guest wondered whether the sale would diminish the charm of the genteel vacation spots. *FORBES* disagreed. But we failed to consider just how fast CSX would bail out of the venture once it began to focus its energies more on its core transportation business.

As part of its September restructuring plan, the \$8 billion (1987 sales) railroad has hired the investment banking firm of Wasserstein, Perella & Co. to find a buyer for Rockresorts. Rockefeller himself is not pleased. Having been earlier assured by CSX that it was investing in Rockresorts "for the long haul," Laurance Rockefeller has now resigned as director emeritus of Rockresorts' board. He has also fired CSX as manager of a personally owned resort in Woodstock, Vt.—Edward F. Cone

Too much, too fast

Sept. 21, 1987

James Bildner

Joanna McArthur



A year ago James Bildner's dream of building a national gourmet grocery chain was fading. Most of the \$46.3 million that Boston-based J. Bildner & Sons raised in its initial public offering and subsequent financing was gone and the company's 18-store operation, stretching from Boston to Birmingham, was in the red. The stock, meanwhile, was 40% below its initial offering price, and Bildner was frantically scaling back operations. "I said he of his overreaching, and now he is to run a well-managed company." Bildner now has only about \$10 million

in assets, and at least \$40 million in debts due to more than 300 creditors, J. Bildner & Sons in July filed for protection under Chapter 11. Bildner now operates six stores from a Brookline, Mass. office over one of them. He'd like to keep going, but that's up to the U.S. Bankruptcy Court to decide.—Claire Poole

Lone Star loser

Sept. 19, 1988

Gene Bishop



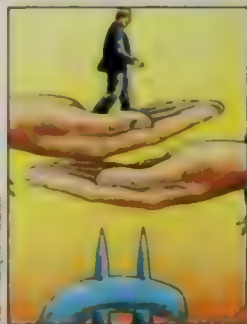
Will van Overbeek

Earlier this fall Dallas' MCorp (assets, \$20 billion) was the only big Texas bank that hadn't been bought or bailed out. *FORBES* thought scrappy Chairman Gene Bishop could recapitalize the troubled but still solvent bank without federal help—barring disasters like a sudden decay of the loan portfolio.

Disaster is precisely what happened. A regularly scheduled—and, in the wake of the First Republic Bank debacle, extremely rigorous—federal examination turned up unexpected weaknesses. Result: a roughly \$370 million loan-loss provision and an estimated \$525 million net loss for the third quarter. That reduced Bishop to asking for federal aid of reportedly about \$1 billion, as part of a bailout plan that includes some \$400 million in private funds, much of it from Texas sources. The feds are expected to ask for competing bids. MCorp may yet wind up Texas-owned and run, but the cherished dream of an independent Texas bank is officially dead.—Toni Mack

Tax tangle

Apr. 18, 1988



Jean-Francois Allard

Around tax time last spring, *FORBES* spotted a glitch in Section 809 of the Internal Revenue Code. A formula created in 1984 to close a loophole for

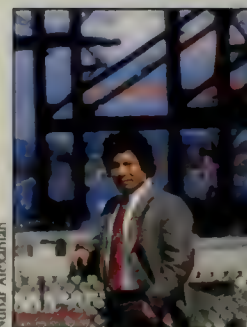
life insurance underwriters, turned out to be a windfall for mutual companies while providing no benefit to their investor-owned competitors. Because of a mathematical fluke, the mutuals ended up with a deduction on dividends that was greater than their actual payout to policyholders, resulting in a tax savings of about \$200 million for 1986.

After protests from stock insurance companies, the IRS has now reversed itself and announced that there can be a negative tax rate; thus, no \$200 million windfall for the mutuals. Congress is worried there may be other inequities in taxing insurance companies, and a House Ways & Means subcommittee may ask Congress to look into the matter during the next session.—C.P.

Settling for more

May 19, 1987

Frank Wright Jr.



Nuhar Alexanian

No thanks, said Tacoma, Wash.'s Puyallup (pew-AL-up) Indians, to a \$140 million federal offer arising from an 1854 treaty. The offer gave the tribe cash, business loan guarantees, social services, and ownership rights to a prime land parcel along Blair Waterway, the main ship channel into Tacoma. All the Indians had to do was drop a real estate claim to much of the port itself. *FORBES* thought it was time to smoke the peace pipe, especially since the far-reaching claim to the Tacoma land had placed a development cloud over much of the city.

Finally, the Puyallups agreed. Tribal chairman Frank Wright Jr. was voted out, and a new tribal leadership team has been able to strike a deal to settle the dispute. In return for giving up their claim to the port of Tacoma, the Indians get all the social services and loan guarantees previously offered, as well as the development rights they had sought along the Blair Waterway. What changed their minds? Federal willingness to kick in a special \$20,000 lump sum to each of the tribe's 1,200 members. Congressional approval should come quickly.—E.F.C.

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The Bigger Picture

Edited by Gretchen Morgenson

Hazardous waste alert

When an industry's as hot as the toxic-waste cleanup business is now, dubious stocks ride high right along with the promising ones. How else to explain the market's assessment of Radiation Disposal Systems, a North Carolina development-stage company with neither earnings nor sales? Recently traded around \$8, its market capitalization is a nifty \$85 million.

How do you create \$85 million in market value virtually out of thin air? With hype. In July the company released the news that it was in "detailed negotiations with Bechtel-Siemens" over a future sales agreement. The company says it's developing machines that will reduce radioactive wastes generated by nuclear power plants. Bechtel says negotiations are progressing.

Touting the stock is an obscure securities firm located in Boca Raton with the impressive name of Morgan Gladstone. Just a few months ago Radiation's publicity consultant Anthony Forte and three pals pumped \$250,000 in working capital into Morgan; Forte has since left the startup.

In disciplinary actions disclosed in October, the NASD alleged that Morgan Gladstone overcharged customers with markups ranging from 7% to 150%. Legitimate investors may be gun-shy these days, but apparently plenty of suckers remain.

Brooklyn beachhead

A year ago it seemed Japanese investors were snapping up big U.S. office towers every other day. Today it appears that frenzy has abated.

But has the Japanese real estate invasion slowed? Or just gone underground? The latter, says Julien Studley, head of a large New York real estate brokerage that bears his name. On a recent visit to Japan, Studley found the Japanese extremely sensitive to how their buying spree was viewed in the U.S. "They don't want to be perceived as taking things over," he says.

So now Japanese investments are much less visible. There are more partnerships, financings and convertible loans, with American developers publicly in the lead. And Japanese buyers have stopped binging on landmark buildings; less glamorous prop-



erties are now in favor. In recent months they have either bought or financed a raceway in the Catskills, the Taco Bell headquarters in Newport Beach, Calif. and an office building in Brooklyn.—Eric Schmuckler

The SAS/Texas Air deal

Frank Lorenzo, the chairman of Texas Air, has taken his knocks recently from the courts and from much of the media, but he's just won one round. Witness the \$50 million arrangement recently struck with Scandinavian Air System's president, Jan Carlzon.

What does SAS get for its money? Half goes to Texas Air's Eastern and Continental units, to sublet gates at Newark and JFK airports. Twenty-five

million is a pretty stiff price since Newark has plenty of gates for lease at nonpremium prices and SAS already has its own JFK gates.

The other \$25 million goes to Texas Air, Lorenzo's holding company. The two carriers will train personnel together, provide ground services for each other and exchange passengers. For his \$50 million, Carlzon also gets the right to buy 10% of Texas Air's stock in the open market.

Funny, last time we looked, anyone with the money and the desire could do that.—E.S.

Life without the Concorde?

Bad news ahead for those business types and jetsetters to whom life without the Concorde would be unthinkable: Gird yourselves. Concorde's days are numbered.

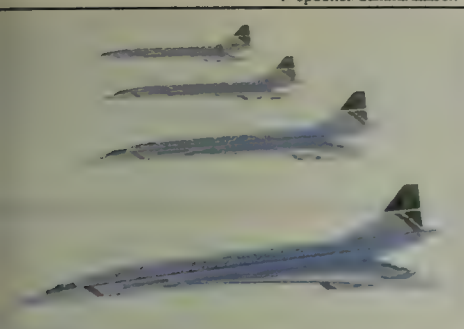
The problem isn't profits. Ever since the British and French governments generously picked up the \$2 billion tab for Concorde's development, the droopy-nosed planes have made money: British Airways' Concorde service flies 93% full on average and netted over \$50 million last year, while Air France, flying at 61% of capacity, made about \$16 million.

No, the problem is that time is running out. The 14 Concorde's now aloft are about halfway through their projected lives, with a dozen years or so before retirement. Production lines were shuttered long ago, so no new Concorde's can be assembled. Thus, by 2000, the current Concorde's will



Texas Air's chairman, Frank Lorenzo

He's had a bad year, but his latest deal is vintage.



the supersonic Concorde
Will you be able to do without?

be ready for scrap. As for a supersonic successor, experts say there may be a five- to ten-year stretch when the world will have to do without commercial supersonic flight. Studies on future SSTs are under way in the U.S., Europe and Japan, but none took off early enough to fill the gap.

The best hope for a Son of Concorde lies with Columbus, Ohio's Battelle Memorial Institute, a research outfit trying to bring together all of the major SST players worldwide. If a cooperative effort gets going soon, the second generation, able to fly the fast-growing U.S.-Asia routes, might break into service by 2010.

Meantime, Concorde loyalists must steel themselves for the rigors of first class.—Dana Wechsler

Changing their tune

The American Society of Composers, Authors & Publishers, which collects song royalties for copyright holders, recently got its knuckles rapped for making what the Federal Election Commission called illegal campaign gifts. ASCAP funneled over \$165,000 to congressional candidates who carried water for it over the last four years, ignoring federal campaign laws.

Among the society's boo-boos: It never set up a PAC, instead it mingled general and political funds. And it gave more than the allowed amount to some candidates, including Senator Arlen Specter (R-Pa.) and Congresswoman Patricia Schroeder (D-Colo.). A cardinal rule for all PACs is that contributions be voluntary, but ASCAP was simply using its own treasury funds for gifts to congressional heavyweights on copyright issues.

ASCAP's response: Our lawyers said it was okay. The society, an unincorporated membership association, contends it doesn't fall within the election law definition of a "political committee." But rather than press a costly legal battle, ASCAP paid a token \$1,000 penalty without admitting guilt and agreed to channel future gifts through a nonconnected PAC that it could sponsor.—E.S.

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Readers Say

Stairway to heaven

SIR: When I read about entertainers' earnings ("The new aristocracy," Oct. 3) I couldn't help but paraphrase Churchill—"Never have so many paid so much to so few for so little" since the oil sheikhs of the 1970s.

—Larry L. Hodges
Memphis, Tenn.



SIR: Before even reading one word of your cover story, my only comment is the old adage "You still can't take it with you!" So what if Elvis is still raking it in, show me how he is directly benefiting!

—John D. Baker
Columbia, S.C.

A push for Bush

SIR: Your Fact and Comment was just great and uplifting (Sept. 19). The excerpts from Richard Nixon's *Newsweek* article are thought provoking.

—George Bush
The Vice President
Washington, D.C.

P.S. Great about Cap being FORBES publisher.

Retirement plan

SIR: It seems to me that the relief we're going to have on Social Security (*Fact and Comment II*, Aug. 8) until at least the year 2015 is going to be turned around by the need to pay monies out to the same people that are paying in too much at this time.

What we need is a program for individuals that would allow, say, an IRA for that individual, with possibly a dollar-for-dollar reduction in their Social Security contribution. Of course, it would have to be capped and I haven't figured out the best way to handle the employer's portion of that contribution.

Let individuals save for their own retirement. If we channel the excess Social Security contributions into some other governmental program, we'll still have this retirement problem for these same individuals at a later date.

—David R. Carpenter
Chairman,
Transamerica Occidental
Life Insurance Co.
Los Angeles, Calif.

Get it write

SIR: In two places (*Fact and Comment*, Sept. 5) you used a grammatical abomination: "heads are at," and "where it's at." I will not cancel my subscription if you persist in deliberate grammatical errors. But I would give serious consideration to not renewing it. Why should I bother to read something written by someone so dumb that he can't write simple English?

—Jerome F. Downs
San Rafael, Calif.

Buckeye economics

SIR: Your article "Colgate's challenge" (Oct. 3) states that Colgate's Reuben Mark is using Woody Hayes' strategy of "three yards and a cloud of dust." The problem is that this only works in games where gradual success is assured—certainly not the case in football or corporate life.

Fortunately, Woody Hayes' strategy was "four yards and a cloud of dust," which avoids endless punts, fourth-and-one situations and other such unpleasantness.

—Michael C. Ellinger
Sausalito, Calif.

Due credit

SIR: Re your article on the Battelle Memorial Institute ("Have lab, can travel," Aug. 22), your readers would be led to believe that there had been no inventor of the xerographic process, but that it had been developed at Battelle alone.

Chester F. Carlson invented electrophotography, later known as xerography, on Oct. 22, 1938. In 1944 Chester Carlson contacted Battelle, which expressed an interest in helping with the development of the process. Xerox Corp. made further research and de-

velopment, which led to the great commercial success that brought about a revolution in communication and publication.

—Mrs. Chester F. Carlson
Pittsford, N.Y.

Death and taxes

SIR: One clarification re your story on variable life insurance ("If you don't understand it, don't buy it," Oct. 3) While the death benefit of a life policy does indeed pass to the beneficiary free of income taxes, it may nevertheless be subject to estate taxes.

—Glenn Daily
Insurance Analyst,
Seidman Financial Services
New York, N.Y.

Good business

SIR: Regarding "The liar's discount" (May 30). The biggest asset any investor relations department has to work with is management's credibility. Some of our most successful programs over the past 26 years have been seemingly mundane companies, but managed by executives who remained accessible and forthright in good times and bad. Getting the bad news out quickly isn't a matter of "spin control." It is, rather, the most conservative investment practice of all: preservation of capital.

—Michael Rosenbaum
Partner,
Financial Relations Board, Inc.
Chicago, Ill.

Base closing

SIR: Since the Defense Savings Act was passed by the House in July (*Fact and Comment*, May 30), its fate has been threatened by posturing over the Defense Authorization bill, which was vetoed by President Reagan last month and is now working its way back through the House.

The scant differences between the House and Senate base closing bills must be reconciled by a conference committee. I am now circulating a letter to House Armed Services Committee Chairman Les Aspin, urging him to use whatever legislative vehicle may be necessary to ensure that the bill becomes law this year.

—Dick Armev,
Congress of the United States
House of Representatives
Washington, D.C.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

CARRYING TEXAS ON NOV. 8 IS MIGHTY IMPORTANT AND

right now the polls indicate George Bush will win those crucial electoral votes. How come, what with the Lone Star State's own deservedly popular Senator Lloyd Bentsen on the Democratic ticket as Dukakis' Vice President?

Robert Mosbacher, CEO of Mosbacher Energy Co. and a key money raiser for George Bush, explained it to me thusly:

"With Texas businessman George Bush as President, and Senator Bentsen so influential in the Senate as chairman of the Finance Committee, what would our state gain by burying Lloyd Bentsen in the vice presidency and losing the President's office to the Massachusetts governor? In oil jargon, why trade in two producing wells for a dry hole?"

NOW HEAR THIS, MIKE, STRAIGHT FROM MARGARET'S MOUTH

Governor Dukakis' expressed determination to cut back very heavily on spending for future state-of-the-art missile systems does not just concern Americans. Our NATO bedfellows are having nightmares about what could happen if The Duke wipes out funds to keep the Free World up

to date, if not ahead in this crucial key to NATO's power to deter. Says Britain's Prime Minister Margaret Thatcher: "I insist in politics on bringing common sense in. A deterrent does not deter when it becomes obsolete or cannot get through, so you must modernize."

WE ARE ALL PROBABLY BETTER OFF WITH GORBY BECAUSE

who knows where his dumper might be coming from. At least the present Soviet leader knows that to recast the withering communist economy he needs to cut back on enormously costly, draining foreign adventures, such as Afghanistan. And he must divert a chunk of the ruble billions and brains the U.S.S.R. is continually pouring into nuclear weapons.

He knows he will need all the strengths—including military backing—if he's to lessen the crushing yoke that the stifling Soviet party bureaucracy imposes. This elite of privileged Soviet deadheads and deadhands won't die easily.

If Gorby falls to a cabal of these ones, their remedy for the bleakness of life in one-room apartments on streets of empty-shelved stores might easily be a diversion of attention by upping the ante on gambles abroad.

That Gorbachev had to have another Kremlin shake-up so soon is not a sign of his strength. His okaying of the halt in the planned Afghan withdrawal is not a sign of his strength.

Stability in the world will be greater if *perestroika* and *glasnost* begin to show results that the people can see, feel, taste.

IT'S OUTRAGEOUS NOT TO DISQUALIFY DREXEL CASE JUDGE

You'd think he'd disqualify himself.

Federal Judge Milton Pollack is presiding over the SEC's huge fraud case against Drexel Burnham Lambert Inc. Not only is the firm on the line, but some of its immensely successful key players could be in line for jail sentences.

So the last thing this consequential, complicated case needs is a judge who—by laymen's standards, anyway—

seems tainted. The Federal Appeals Court has branded the firm's request to disqualify the judge—who refuses to disqualify himself—as "premature." Drexel made its request on the basis that Mrs. Pollack could make as much as \$30 million from a buyout that Drexel is helping to finance.

As a result of the court's decision, Judge Pollack will

go on making critical pretrial rulings.

It strikes us that an even more compelling reason to disqualify Judge Pollack comes from the history of a bitter clash that he had in a previous case with the chief counsel, Arthur Liman, for Michael R. Milken, the \$billionaire defendant who was key in the creation of the whole giant junk-bond market. As reported in the *New York Times*, "After a protracted trial in *Chris-Craft Industries v. Piper Aircraft*, Judge Pollack dismissed Mr. Liman's case. He was reversed by the U.S. Court of Appeals, which sent the matter back to the judge to assess damages. Judge Pollack then assessed a relatively small sum of less than \$3 million.

"On appeal again, Mr. Liman this time asserted that Judge Pollack had been in error so often in the case that the

appeals judges need not send the case back for a recalculation of damages. In a rare move, the appeals panel reassessed the damages against the defendants, and it entered a judgment of \$36 million.

"Ultimately, the U.S. Supreme Court weighed in with a well-known securities decision that reversed the appeals court and, in effect, exonerated Judge Pollack."

In our eyes—laymen's eyes, we repeat—Judge Pollack has to bend over backwards to be more than fair in a case where he has such involvement. Or he can proceed and have any hurtful-to-Drexel rulings be subject to charges of prejudice.

Why the appropriate federal judicial arbiters would want to leave a judge presiding in such suspect circumstances is beyond our unlawyerly comprehension.

WILL THE "NEW" THREE-SECTION WALL STREET JOURNAL SUCCEED?

Yes. Because by better sorting its plum-pudding rich content, it's a much easier read.

Will readers be psyched out because they will feel three sections are more to get through, even though the total editorial content is little more? *Wall Street Journal* subscribers are of sufficient intelligence to appreciate the preassortment of content without being put off by the appearance of more when there isn't. Are readers of *USA Today* put off by four or occasionally five sections? Were readers of the *New York Times* put off when two sections became sensibly assorted into four?

Will advertisers feel that lots of readers will skip some

parts, looking only at those of most interest? To a degree. But many advertisers like to target their audience, and business magazines (including *FORBES*) frequently run pre-

mium-priced, special advertising sections aimed at bull's-eyeing executives with a particular interest—office equipment or insurance or plant and office relocation, etc.

Dow Jones CEO Warren Phillips and *Wall Street Journal* Managing Editor Norm Pearlstine will be entering the paper's 100th anniversary in 1989 with a package that is

tuned up, tuned in better than it's ever been.

(And because we compete for businessmen's reading time, at *FORBES* we're not necessarily all that happy about it!)



Cetin

WSJ's Phillips, Pearlstine: the two for three

TWO SEMI-MEA CULPAS

Tempering pronunciamentos made here isn't something we are wont to do. But once in a while second thoughts or a sense of fairness brought on by readers' missives seem to call for it. To wit:

"In your green-light note on *The Last Temptation of Christ* (Sept. 19) you refer to 'religious-extremist protesters.' I think that is an incorrect and unfair characterization. There's too much careless use of the word 'extremist.' "

—William B. Horn, Minneapolis, Minn.

"Your criticism of people who have the character and principles to respond out of their faith is unfortunate. America lacks for citizens committed to anything. I pray you will be more sensitive."

—Gary A. Meharg, Troy, Mich.

In saying that "religious-extremist protesters have made this extraordinary film a box-office sensation," I didn't mean to imply that all or most protesters went to extremes. It was those who did who aroused the curiosity—and attendance—of many who otherwise would not have gone.

About another editorial, these letters powerfully make a point that we should have:

"Your comments on Iraq's use of poison gas contained a serious factual error. You state that in WWII, 'no nation used poison gases.' The world's reaction (or lack thereof) during WWII to the use of such gases against a civilian population explains perhaps why Iraq felt it would not provoke the outrage required to force it to cease."

—Alec L. Ellison

"What the hell were the Germans pumping into the gas chambers? I fail to see any meaningful distinction between dropping gas bombs on villages or dropping canisters into death chambers."

—David J. Morris, Chatham, N.J.

"What was it the Nazis used at Dachau, perfume?"

—Herman Arthur, Bronx, N.Y.

"Informed people, especially editors, should recognize that gassing of innocent children and civilians is as heinous a crime as gassing of soldiers at war."

—Carl Appel, New York, N.Y.

WHO AM I TO PAN THE DUKE IN THE TANK?

A lot of pundits jumped on Mike Dukakis because he jumped into a tank and went for a photo-opportunity ride.

But I certainly am not one to gun him down for that. Just 31 years ago, almost

to the day that the Massachusetts governor took his tank ride, I took one with a unit of the New Jersey National



Election tanking: Dukakis-1988; MSF-1957



Guard during their summer training at Camp Drum.

I was the Republican candidate for governor in New Jersey. Unfortunately, it didn't protect me from being buried in an Elec-

tion Day landslide and may well end up doing as much for Mike as it did for Malc.

ALL THIS TALK ABOUT SMEARS IN PRESIDENTIAL RACES

brings to mind one of the real classics of the genre. Its effect was politically catastrophic, though the words were actually almost all flattering. In case you haven't seen it lately, here's what Senator Smathers back in 1950 said of Florida's Senator Claude Pepper:

"Are you good folks aware that Senator Pepper is

known all over Washington as a shameless extrovert? Not only that, but this man is reliably reported to practice nepotism with his sister-in-law and he has a sister who was once a thespian in New York City. Worst of all, it is an established fact that Mr. Pepper, before his marriage, habitually practiced celibacy."

NO ANSWER

is often the best answer.

IF YOU DON'T WANT TO

don't.

BOOKS



● **Homeless in America**—a project of the National Mental Health Assoc. and Families for the Homeless (Acropolis Books, \$34.95). These harrowing pictures are so shockingly stark that anyone seeing them will be moved to support every community effort to alleviate any instances that defy long-term solutions for homeless Americans.

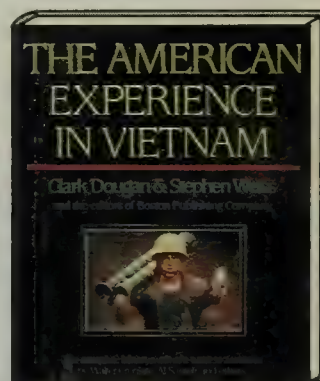
● **Tell It to the King**—by Larry King (G.P. Putnam's Sons, \$16.95). Everyone who isn't always asleep when most others are tunes in to see or hear this king of the nightwaves. Those who aren't and aspire to be somebody sooner or later sit down with Larry to account for themselves and to recount for his countless listeners aspects of their lives or loves or wit or wisdom or the lack of any or all. This scintillating volume of revealing closeups by the insightfully witty light of the night, Larry King, will keep you as awake as his program does.

Excerpts: "Do you think you're conceited?" I asked Jackie Gleason. "No," he said, "I'm not conceited. I know I'm good. Conceit is when you're not good and think you



are." . . . Henny Youngman is eighty-two, Milton Berle is eighty, Bob Hope is eighty-five, George Burns is ninety-two, and whenever I've asked any one of them about age they have given me nothing but flippant answers. I don't think they want to deal with retirement, and I also think they see stopping as death. . . . People often ask me what my fantasy job would be on TV if I weren't an interviewer, and I think I'd like to do weather for a week. I would give the world's only guaranteed perfect weather forecast. I would never be wrong: "Partly cloudy, chance of showers." There's always a cloud somewhere; there's always a chance. . . . I think the worst son of a bitch I've ever heard of was Al Jolson—I've never heard a good word about him. As George Jessel told me, "Jolson's funeral was widely attended by those who wanted to make sure."

● **The American Experience in Vietnam**—by Clark Dougan & Stephen Weiss (Boston Publishing Co., \$39.95). This absorbingly vivid volume covers Vietnam from the appearance of the first U.S. advisers after the French Dien Bien Phu defeat to the dedication of the Vietnam memorial in Washington. This stunning in-depth summary emerges from the nine-year, 25-volume series *The Vietnam Experience* that, under progenitor Robert George, has become a publishing milestone. This history is It for Vietnam.





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Where quality starts with fundamentals



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Yes, Virginia . . .

I have a confession to make. I am a Republican. Yes, I know it doesn't sound very shocking, but I also live in New York City. In New York, the GOP isn't merely the "minority party." It is difficult to convince New Yorkers that Republicans really exist.

You'd think in a city with the highest taxes in the nation and almost half the adult population outside the work force such issues as the need for lower taxes and enterprise zones would be on everyone's lips. As things go from bad to worse—as panhandlers proliferate, as apartments get harder and harder to find, as corruption spreads to every level of government—loyalty to The Party of the Government only increases.

Meanwhile, the remarkable, eight-year revolution that has transformed the rest of the country—and is now spreading to the socialist world as well—remains for New Yorkers a weird, exotic dream.

—William Tucker, New York correspondent for *The American Spectator*, in the *Wall Street Journal*

Click for Click

Where do you draw the line in terms of the press? When Sinatra was married to Mia Farrow, a particular photographer used to follow them around trying to get pictures of them, not just in public places like restaurants, but in supposedly private places like their boat. It bugged Frank, and

he got the photographer's name. Then he hired three photographers of his own to follow the guy all over for a couple of weeks, around the clock. They'd take pictures of him wherever he went, take pictures of his house all night. It was all perfectly legal, and it drove the guy crazy.

—*Tell It to the King*
by Larry King

Quayle Help

One clear benefit to Mr. Bush for having chosen Senator Quayle may be one he did not foresee. The choice brought a storm of criticism. Knowing he could not reverse himself, Mr. Bush fought back with rare combativeness. It is hard to think of anyone who has, since then, derided him as a wimp.

It's not as though [Senators Bentsen and Quayle] are running against each other. If they were, the new poll indicates, Mr. Bentsen would be way ahead. He [went] into the debate preferred by 19 points. But the two Senators are second bananas, for whom the November ballot will offer no such split. And only 33% of likely voters think the Vice-Presidential candidate matters much.

—*New York Times* editorial

Attractive Investment

In 1922, the year he graduated, Bill Harkness made his own contribution to the family fortune when two friends from the *Yale Daily News* ap-

proached him for financial backing to launch a weekly newsmagazine. Bill was wary of people who came to him because of his great wealth. But he was sufficiently impressed to put up \$5,000 and suggest they see his mother. Mrs. Harkness was quite deaf by then. She heard little of what they said, but she read the prospectus and liked their looks. "That will do boys," she said. "I'll put in \$20,000." The new magazine was launched with 40% of its \$85,000 capitalization coming from the Harkness family.

The first issue sold 9,000 copies. By 1924 circulation was up to 70,000 and *Time* was beginning to attract advertisers. The investment, of course, was eventually worth millions.

—*Blue Blood*, by Craig Unger

A liberal is a man too broadminded to take his own side in a quarrel.

—Robert Frost

No Recounts

During a critical time in the Revolution, assemblymen of Salem, Mass. had been sent home when it was learned they were elected by a count of corn kernels and peas in a hat. John Adams, hearing of it, had said Nonsense! Let Salem elect by a count of dead codfish if they pleased—but let them get on with the business of government.

—*Miracle at Philadelphia*,
by Catherine Drinker Bowen

Care Incentives

Why not offer tax and other incentives for families—including non-nuclear and unconventional families—who look after their own elderly instead of farming them out to impersonal old-age "homes." Why not reward, rather than economically punish, those who maintain and solidify family bonds across generational lines?

—*The Third Wave*, by Alvin Toffler

Tolerance for Capitalists

To a suggestion that a well-known captain of industry be placed in Coolidge's Cabinet, an associate of Coolidge objected: "But Mr. President, that fellow's a son of a bitch." "Well," said Coolidge, "don't you think they ought to be represented, too?"

—*Presidential Anecdotes*,
by Paul F. Boller, Jr.



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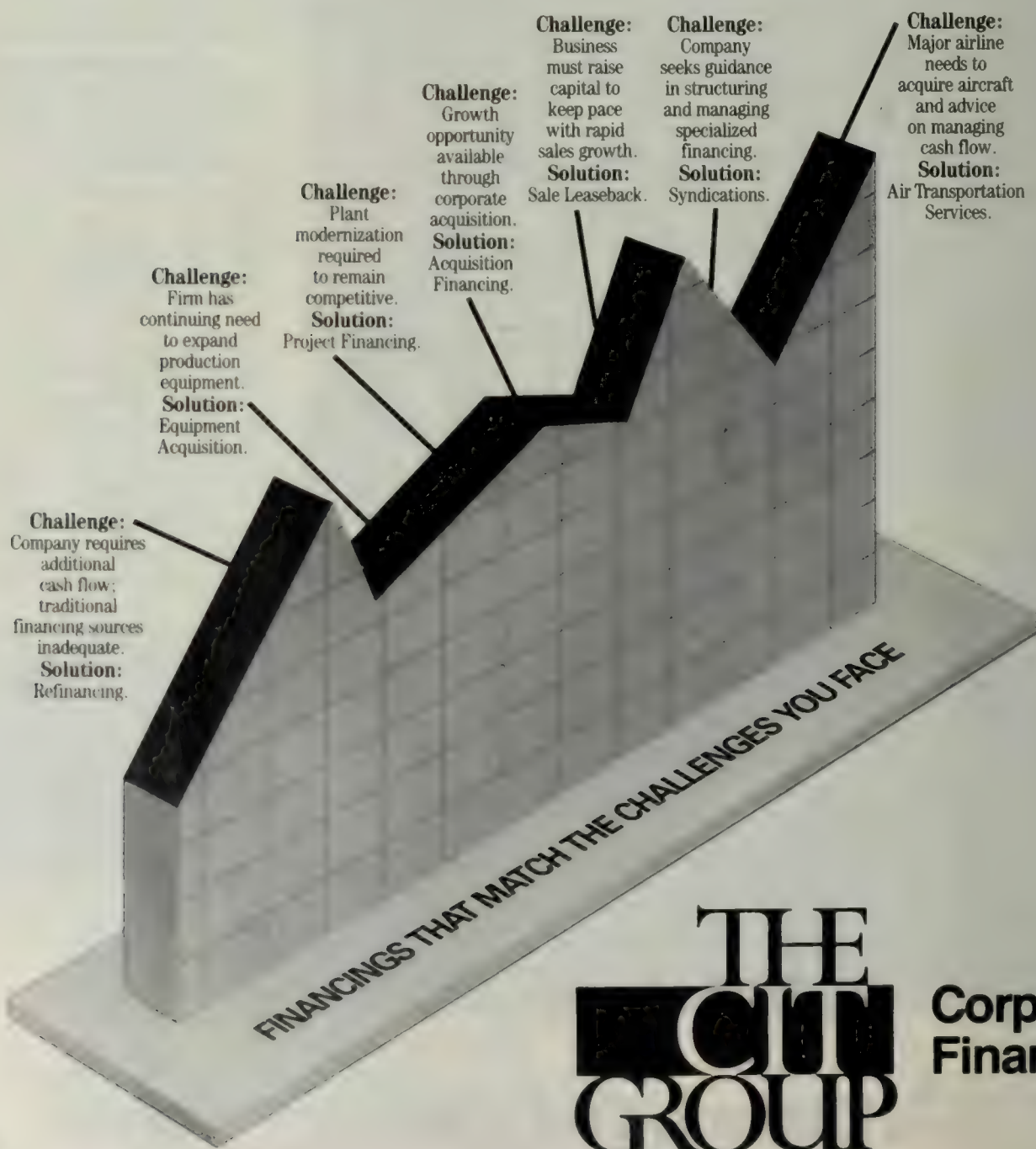
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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief



THE ISSUE THAT WILL DEFEAT DUKAKIS

Protectionism.

MASSACHUSETTS MIRAGE

Michael Dukakis labels his record as Governor of Massachusetts a miracle. It is more a miracle of public relations. By whatever group of criteria you use—job creation, growth in personal incomes, etc.—the Massachusetts economy has boomed no more than other neighboring New England and Northeastern states. In fact, the Bay State would have lagged behind the region if it had not been the recipient of significant military spending. Massachusetts' per capita share of this largesse is twice the national average, which gives the Governor's antipathy to military an ironic twist.

Dukakis criticizes the Reagan-Bush Administration for the "uneven" economic growth in the past eight years. Massachusetts shows the same pattern: It has suffered more of a decline in manufacturing jobs than any other state in the Union.

Dukakis lashes Republicans for their budget deficits. Yet his own fiscal record has been no success.

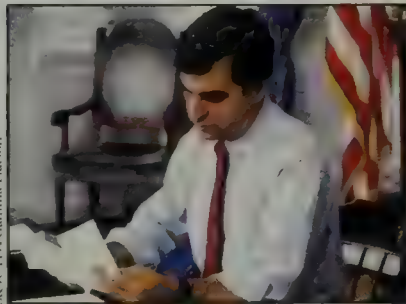
Since Dukakis resumed the governorship in 1983, Massachusetts' spending has been growing at twice the rate of Washington's and 30% more than other states'. In four

years, he has *doubled* the state payroll. Massachusetts' pension system, none too good before the Duke took over, has seen unfunded liabilities jump from \$4 billion to more than \$8 billion, making it just about the shakiest state fund in America. Contrast this sorry performance with Michigan's, which was devastated by the recession of the early 1980s. Michigan's pension funds are now all fully funded.

If Massachusetts were to keep its books the way the federal government does, Dukakis' boast of being a budget balancer would be shown to be hollow. In Washington, capital items such as dams, buildings, schools, battleships are

included in one budget. On the state and local levels, capital and current expenses are usually separated into two budgets. Massachusetts' indebtedness (actual and authorized) has doubled in four years.

As a result of this borrowing and spending binge, the state's finances today are a shambles. Massachusetts is borrowing hundreds of millions of dollars just to cover shortfalls in its expense budget, the same pattern that brought New York to its financial knees in the mid-1970s.



This is competence?

SO WHERE'S THE DEPRESSION?

For months after last year's stock market crash, newspapers routinely ran charts showing how the stock market was paralleling the perilous course it took in 1929-30.

Once again, history did not repeat itself.

In the eyes of the Federal Reserve and a number of economists, the chief problem for the American economy this year was that it was too strong for its own good.

Bonds and stocks? They're way undervalued.

Factor out inflation, and equity averages are still 20% to 30% below what they were in the mid-1960s. Interest rates are high because the Federal Reserve tightened in the mistaken belief that prosperity causes inflation. Inflation's rise this year came about because of the unnecessary dollar

devaluation of last year. You always pay a price for trashing your money.

The horizon is not cloudless. The same factors that triggered last year's panic have not disappeared. Protectionist sentiment in Congress is still strong. So is that body's propensity to tax. The notion that the trade balance is a meaningful measure of health still grips the minds of too many. The idea that debasing the dollar helps the economy remains widespread.

If the next Administration avoids descending into trade wars and avoids the siren calls of devaluation, of boosting taxes and of otherwise manhandling the economy, the 1990s will be as similar to the 1930s as day is to night.



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MANAGING "FREE" TRADE

The conspiratorial spread of managed trade agreements

YES, THE PRESIDENT'S VETO OF THE BILL to limit the growth in textile imports to 1% a year was sustained. But the silent conspiracy against free trade in the textile and apparel businesses worldwide lives on by other means—by, for example, the Multifiber Arrangement, which controls 50 countries' trade in cotton, wool and man-made fibers.

That's how managed trade becomes institutionalized—through what are invariably described as temporary but are in reality near-permanent relief measures, such as "voluntary restraint agreements."

Such measures, of course, increase the price, and hence profit margin, achieved by both the foreign and the domestic manufacturer. It thus becomes in the interests of both to sustain such agreements. And it becomes in the best interests of other countries' producers to try to get aboard the system, too, or risk being shut out.

Limiting imports of Japanese cars to the U.S., remember, had the unintended effect of encouraging them to go for the higher-priced part of the market and so to make higher profits. The South Koreans plan to go down the same path.

As with textiles, so with steel and microchips

THE PROTECTIONIST MOOD IS SPREADING, not vanishing. The U.S. steel industry, backed by Washington-based lawyers, civil servants and politicians, is already lobbying for its protection (under the so-called Reagan plan, introduced in 1984) to be extended for five more years when it ends in September 1989.

It's happening, too, in microchips. Even though the last ill-begotten international deal to manage trade in DRAMs all but destroyed this part of the U.S. industry (*FORBES*, June 13), U.S. and European Community chipmakers, egged on by their trade officials, are creating a unified policy to deal with low-cost Asian imports.

Don't minimize the role played by bureaucrats. Protectionist agreements now in force add up to full-employment legislation for unnumbered civil servants around the world who know how to administer them. Once managed trade is in place, they turn it into a handsome career.

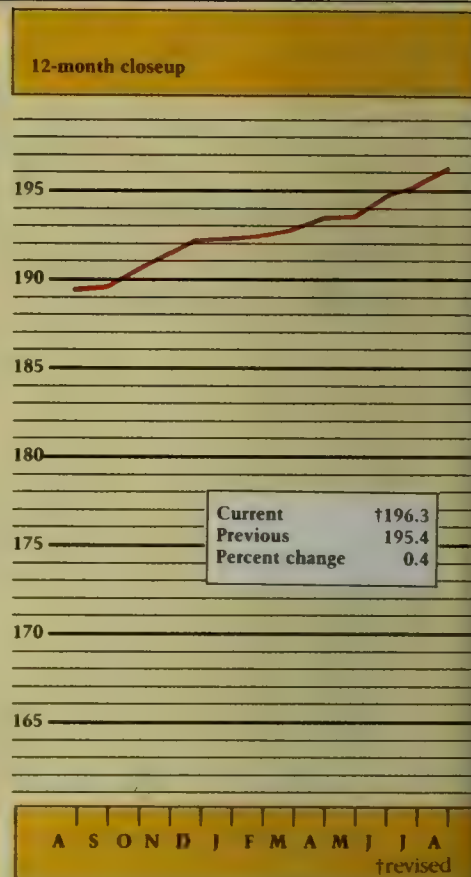
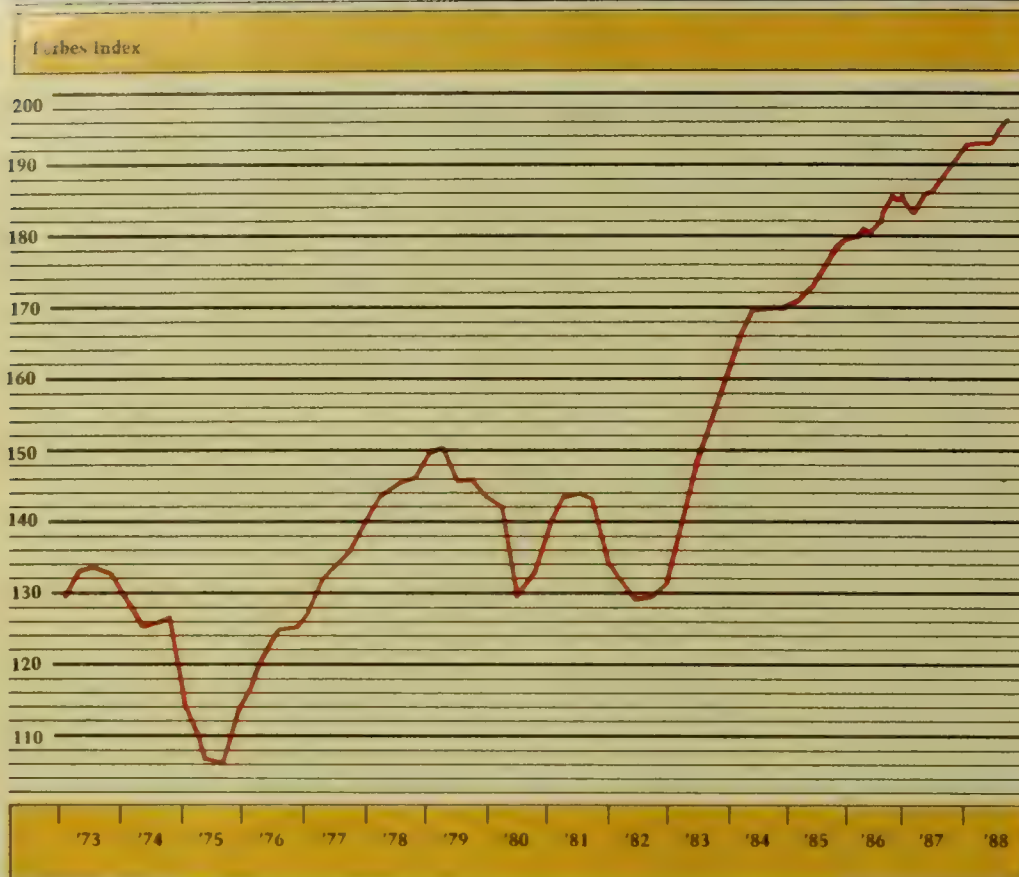
It all costs U.S. consumers \$65 billion to \$70 billion a year

WHO PAYS? THE POOR CONSUMERS, of course, the silent unasked partners in these arrangements.

It's more costly than they realize. The latest estimate from Gary Hufbauer of Georgetown University, a leading authority on the matter, is somewhere between \$65 billion and \$75 billion a year. The textile bill vetoed by President Reagan would have added another \$10 billion to that.

One ingenious way to get some of that back, advocated by Fred Bergsten of the Institute for International Economics, would be to sell the quotas. The effect would be to keep in the U.S. some of the dollars that flow to foreign producers. Ingenious, but a nonstarter. It has no lobby—labor, management or bureaucratic—to push it.

The Forbes Index



Breathing room. Consumer installment credit rose 0.8% in August, to \$653 billion. This represents a 6.7% increase since December 1987. During the same period, however, personal income climbed 7.8%, to \$2.46 trillion. Manufacturers' new orders in August were off 1.9% from their June peak but are 5.9% higher than they were during a short-lived slowdown in July. Corporations, meanwhile,

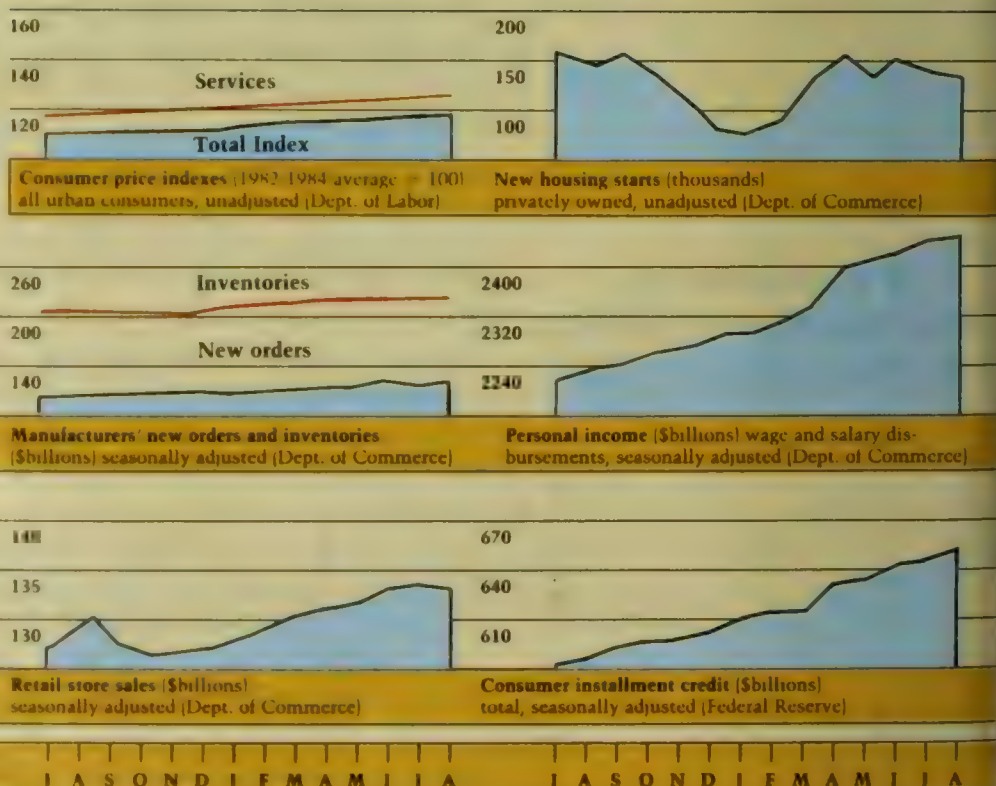
have been doing a good job managing their inventory levels: The August figure for manufacturers' inventories is up only 0.4% over the July result.

The unemployment rate dipped in September to 5.4%, the lowest level in three months. The Forbes Index ended August with a 0.5% gain. This marks the seventh straight month in which the Index has closed at a record high.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production; new claims for unemployment compensation; the cost of services relative to all consumer prices; the level of new orders for durable goods compared with manufacturers' inventories; total retail sales; new housing starts; personal income; total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.





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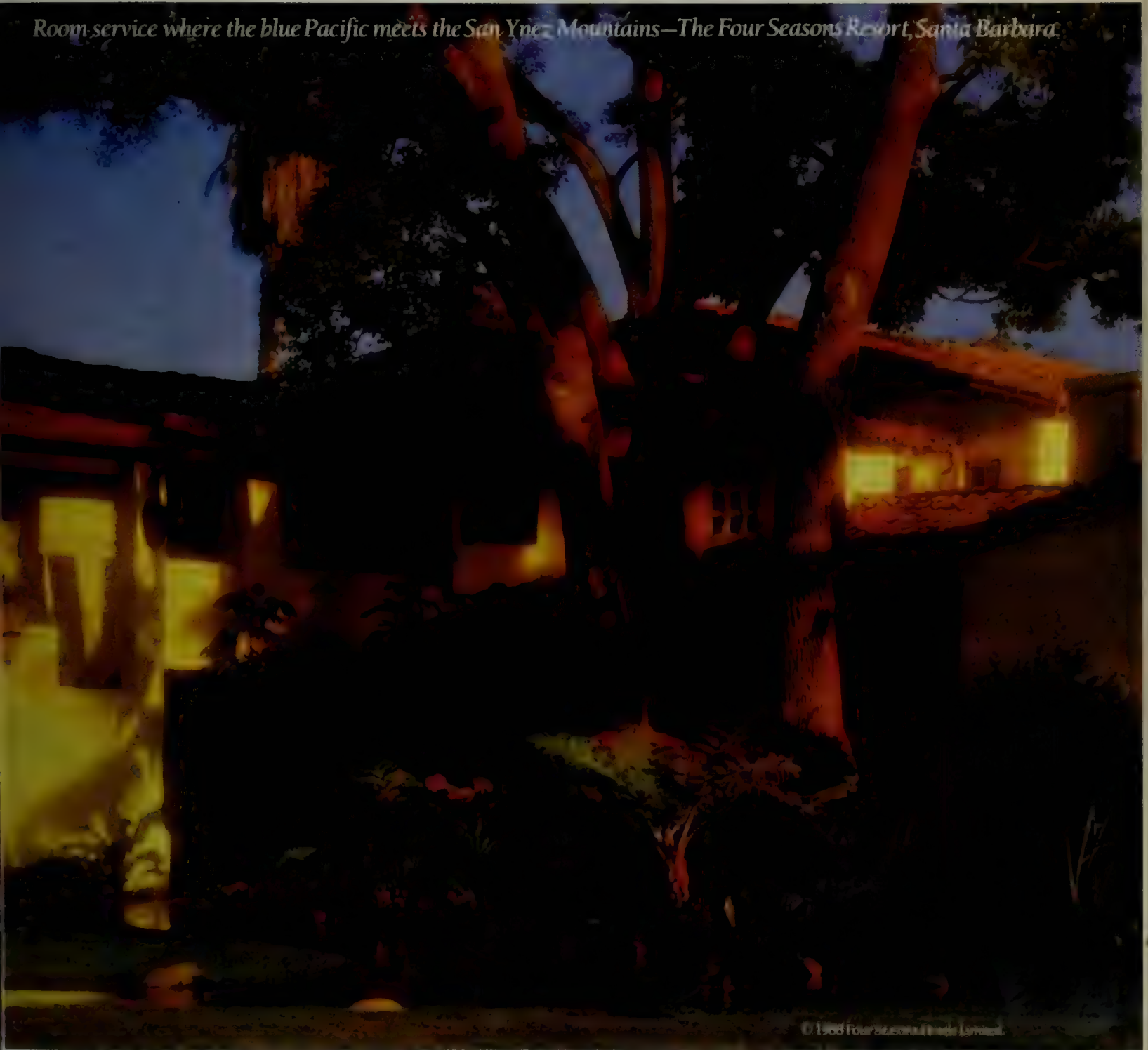
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When the hard-money crowd assembled in New Orleans this month, the old-time goldbugs seemed to have lost their enthusiasm for the precious metal—and for just about everything else except bonds.

The deflation blues

By Peter Brimelow

WHEN LIEUTENANT Colonel Oliver North delivers one of his patriotic addresses, he arrives accompanied by an entourage of unsmiling men with wired ears and physiques that give them the slightly comic appearance of footballs crammed into sports jackets. But when North left the podium at Blanchard & Co.'s 15th Annual New Orleans Investment Conference and traveled the dark and deserted backstage area, their scurrying determination to form a perfect flying wedge

around him made it suddenly obvious that North's predicament is no joke.

The Blanchard Conference is the biggest and best known of the hard-money investment meetings. The 2,000 attendees this year, overwhelmingly individual investors, arrived early, stayed late and took detailed notes as some 76 speakers gave more than 57 hours of presentations. A few Wall Streeters were in evidence—and at least one journalist, the author of this article—but the majority of speakers were the editors of investment letters. And despite recent diversification to cover other investment vehicles—and

politics: as well as North, William F. Buckley and George McGovern were speakers—the underlying concern remains monetary matters and the outlook for gold.

The 1970s were years of triumph for the hard-money crowd. But in the 1980s, as inflation broke, a deep division arose. Some celebrated gold bulls, like Howard Ruff of *Ruff Times*, expected inflation to return and gold to rise; others, like Harry Browne of *Harry Browne's Special Reports*, worried about deflationary forces loose in the economy and said the gold game might be finished for a while.

The news from New Orleans is that this debate is over and the deflationists have won. Even Ruff has capitulated, telling the audience to run to the phones and sell all their gold stocks—a move that made longtime deflationists wonder uneasily if gold might be due for a short-term rally. A few stubborn gold bulls are still pawing the ground and bellowing, like Ian McAvity of the Toronto-based *Deliberations* letter. But the clear consensus was that gold is out except for small holdings as insurance.

Which does not mean the deflationists are necessarily optimistic about conventional investments. In fact, along with a declining fear of inflation, there's been a paradoxical pick-up in forecasts of impending doom.

The rationales differ slightly. Harry



Does getting \$1 million of coins, diamonds and bullion glitter dulled?

LICKSON/THILL

Browne, who wrote a string of best-sellers forecasting inflation in the 1970s, is returning to the doom business after a long absence with a book due in January called *The Economic Time Bomb*—arguing that the next recession could precipitate collapse because of possible bank failures, difficulties financing the federal deficit and mistakes by the Fed. Browne concludes that in order to stave off deflationary collapse, inflation may be brought back by the authorities in the early 1990s—if we're lucky. A more committed deflationist, James Dale Davidson of *Strategic Investment*, simply believes that no government will be able to get inflation going.

But outright collapse was a minority concern at this year's conference. The principal consequence of the deflationist victory is a strong interest in bonds. Richard Band of *Personal Finance* was one of a number of bond bulls, arguing that real interest rates are unsustainably high and that Social Security surpluses over the next few decades will reduce government demands on the credit market. Bonds suffered through a 35-year bear market until the early 1980s, he said. Now a historic reversal has occurred.

The response did not seem enthusiastic. Several speakers commented privately that the audience seemed confused and depressed. Apart from recent gold slippage, the crash in October last year has obviously not yet been digested. And just to stir up the ulcers, some of the more prominent speakers on the stock market were fiercely bearish. For example, Richard Russell of *Dow Theory Letter* and Robert Prechter of *Elliott Wave Theorist* both have reason to claim that they anticipated the great bull market and that they got their subscribers out as it started down. Both see nothing good going on now. Russell says that only a decline to 1000 on the Dow could stimulate his interest. Prechter actually expects it will go even lower.

The Blanchard conference likes to arrange theatrical moments. This year a Lone Ranger-type figure—actually *Forecast & Strategies* editor Mark Skousen—appeared on a horse to launch a satirical attack on penny stock promoters. Some of the speakers (not just the ones pushing penny stocks) felt afterwards that this subject was too painful for humor. Being caught in penny stocks, said one in words that might be applicable to the entire conference, reminded him of Adlai Stevenson's description of losing a presidential election: He was too old to cry, but it hurt too much to laugh. ■

Shearson is challenging Merrill Lynch for the title of biggest securities firm. They are competing vigorously across the board, nowhere more so than in...

Packaged investment goods

By Richard L. Stern

MICHAEL DAVIS, 56, is the kind of salesman every brokerage firm covets. Davis, who works for Shearson Lehman Hutton in Philadelphia, isn't constantly on the telephone bugging people to buy Chrysler or sell General Motors. Pushing individual transactions in dull markets is not for him. Davis is an asset-gatherer. Instead of giving advice and taking orders, he gets people to let him steer their money, as a package, to outside money managers. He is selling not stocks or bonds but packaged services. These packages include mutual funds of a bewildering variety, closed-end funds, outside investment advisers, limited partnerships and insurance annuities.

And although it is quite obvious that for now sales of most of these packaged products, particularly mutual funds, are off dramatically, it is equally clear that the continuing fee income these wares produce is helping the smarter brokerage firms keep their heads above water in these tough times.

A stock transaction creates a single commission; investment packaged goods generate a continuing stream of management fees and other income, a virtual annuity for the brokerage that sells the deal. That's why asset-gatherers like Michael Davis are in such demand.

Not that the stock movers have died out. There are still people such as Shearson's Stephen Karelitz in Boston. Karelitz, who teams with his son, earned himself well over \$1 million by bringing in \$3.4 million in gross commissions last year. But Karelitz admits he may be the last of his kind. "I'm a dinosaur," he says.

Aside from a handful of people like Karelitz, few brokerage salespeople get much respect these days from the public. Most who looked good when the market was going straight up utterly failed to get their clients out before last Oct. 19. "Let's face it," says Wick Simmons, head of Shearson's retail business, "maybe about 2,200 of our 11,000 brokers really are capable money managers."

As for the rest, they can be good salespeople even if they are not great stock pickers. A Shearson salesperson, for instance, can offer the services of 17 top-rated outside money managers selected by the firm. Called the Select Managers Program, its assets have climbed from nothing to \$675 million in about a year. Now yielding regular income for Shearson, much of this money might have languished in money market funds or inactive brokerage accounts.

It's crystal clear why both the brokers and their firms love this type of business. As long as the money stays either with the selected manager or in a house-run mutual fund, a broker derives a regular cut of the fees. Instead of a one-time sale, this produces an annuity for the firm and the broker. Wall Street calls it "evergreen income."

In the Select Managers Program, for example, a customer pays as much as a hefty 3% of the assets a year for a service that includes the necessary trading commissions and a regular review of the manager's performance. The investment manager keeps up to 3/4 of 1%, and Davis and Shearson divide the remaining 2%. Shearson President Jeffrey Lane says that evergreen fees of one sort or another now cover 48% of Shearson's fixed costs. It is estimated that evergreen income

ints for 25% to 30% of the firm's total earnings.

An impressive performance that is helping Shearson match and pass Merrill Lynch. Shearson's third-quarter earnings, when they are announced shortly, will likely be lower than Merrill's. But just as likely, for the first nine months of this year, Shearson will have outperformed Merrill, particularly considering that Shearson in that period will have taken a \$150 million one-time charge for its January acquisition of E.F. Hutton.

Shearson under Chairman Peter Cohen is clearly determined to prove that a multiline Wall Street firm can get the higher margins normally racked up only by more specialized firms, such as Morgan Stanley and First Boston. Because retail business remains weak, this won't be Shearson's year. But the firm has already gone a long way toward meeting Cohen's goal of becoming a full-line investment house.

The last good year for all the investment houses was 1986. In that year, says Michael Goldstein, of Sanford C. Bernstein & Co., Shearson's institutional investment banking pretax profit margins were 24%, besting First Boston's and equaling Morgan Stanley's, while Merrill's was 15%. Even with the debacle of Oct. 19, Shearson's institutional investment banking margins, at 8% last year, were about even with First Boston's, while Merrill's were minus 14%.

Another impressive showing. After all, Shearson was built from almost nothing over the last 20 years by a team headed by Sanford Weill. The firm was essentially a retail brokerage house that competed successfully chiefly through sheer economic efficiency—read a skinflint attitude—toward operating costs. In the late 1960s and most of the 1970s, when the brokerage business was in turmoil and old names were vanishing from the business at an alarming rate, Weill's firm picked up many of the pieces cheaply. Into the maw went such once great firms as Hayden Stone, Shearson Hammill and Loeb Rhoades Hornblower. By the time it was acquired by American Express in 1981, Shearson was already the second-largest retail house in the nation.

Sandy Weill departed after Shearson was bought by American Express and he was succeeded by his right-hand man, the now 41-year-old Peter Cohen. In 1987 American Express reduced its ownership to 62% of Shearson, selling 13% of the company to Tokyo-based Nippon Life and the rest to the public. Rumors persist that

American Express will go from majority to minority ownership to avoid consolidating balance sheets.

Last year Shearson took in \$728 million in revenues from institutional investment banking. That, notes Goldstein, was close behind Merrill's \$736 million and ahead of Morgan Stanley's \$711 million. At year-end, Shearson's large trading inventory, now including major market-making positions from stocks to municipal bonds, rivaled that of trading giants Merrill and Salomon Brothers.

Mergers and acquisitions? For the first six months of this year, it's esti-



Shearson Chairman Peter Cohen

Locking in that evergreen income.

mated that Shearson was a close second to Goldman, Sachs in fees. Sterling Drugs (fee, \$8 million) and Federated Department Stores (fee, \$19.8 million) were among its highly profitable deals.

Outside its traditional retail business, Shearson also acquired in 1981 Boston Co.—a money management firm that today holds \$33 billion in assets for institutions and high rollers. Its subsidiary, Boston Safe Deposit, has grown under Cohen into the nation's 25th-largest bank—although because of legal restrictions separating banking from Wall Street it is run as a "nonbank bank." In 1984 Cohen bought Lehman Brothers, the investment banking and trading firm. And last January he acquired E.F. Hutton.

Nor has Shearson lagged in the growing international arena, despite big losses in last fall's British Petroleum offering and an admitted overex-

pansion in London in expectation of booming business after brokerage commissions there were deregulated. Says Cohen: "We've made bigger profits from international markets in the last six months than ever before." Shearson is now doing a \$270-million-plus European stock offering for Safra Republic, Edmond Safra's new commercial bank. Shearson was a major player in France last year as the government sold big chunks of state-owned enterprises to the public. More recently, it was the lead manager for a \$4.8 billion refinancing of Israeli loans to purchase weapons.

Shearson isn't neglecting its retail business, even though retail is sick. It has been integrating backwards in retail, like its rival Merrill, so that its salespeople can sell in-house proprietary products that would generate continuing fee income. It's buying over 40% of First Capital Holding, for example, to manufacture insurance and annuity products in-house. And its Select Management Program came from E.F. Hutton.

Among all U.S. brokerage firms, Merrill Lynch remains the leader in sheer size of assets it holds for customers. But in revenues Shearson and Merrill are now neck-and-neck: In the first half of 1988, Shearson's revenues were \$5 billion, Merrill's \$4.9 billion. Merrill has about \$84 billion under management these days, while Shearson has about \$97 billion. And Shearson has consistently outperformed Merrill's net profit margins.

But for all of his pride in Shearson's gains, Peter Cohen cannot be happy about the fact that last year neither his firm nor Merrill Lynch led The Street in profitability. That claim belonged to the smaller, more specialized outfits such as Morgan Stanley in investment banking and the likes of St. Louis-based A.G. Edwards (FORBES, July 25) for pure retail brokerage. In the banner year 1986, according to Value Line, Shearson showed net profit margins of 6.9% but Morgan Stanley did 8.2% and Edwards 10.2%; Merrill did 4.9%.

This year, with the phones rarely ringing in brokerage offices, such retail-heavy outfits as Shearson and Merrill will lag further behind their specialized rivals. But in one way or another, the individual investor will continue to invest. In the long run, industry leadership, in both revenues and profitability, will go to the firm that can do the best job of packaging products for investors and of running its business efficiently. In both of these areas Shearson is a powerful contender. ■

No longer the darlings of Wall Street, many biotech companies are trying a new dodge to attract money: designer labels.

The bust in biotech

By Kathleen Healy

INVESTORS THESE DAYS do not want to know from biotech. This high-flying flock of companies that are involved in various forms of DNA-splicing technology have, in the last year, nicely underperformed the market: While the Standard & Poor's 500 index was up 10% through the third quarter, biotech issues were down 4% in the same period.

Over the longer term their performance has been even more dismal. The FORBES new issue database shows that over the last eight years, though they have been hyped to a fare-thee-well by Wall Street, biotech new issues are down by 26%, while the S&P 500 index is up more than 150%.

Wall Street's solution? Simple. Call the latest batch of biotech babies—which are now mostly doing brain cell research—something else. The latest buzzword is neuroscience, a catchall rubric for companies developing products to attack neurological diseases and syndromes as diverse as Alzheimer's and anxiety, Parkinson's disease, obesity and depression.

Call them what you will, says Wall Street, but don't call them biotech. Listen to John Wilkerson, a well-known Manhattan consultant who makes his living giving new science-oriented companies advice about raising money. "We'll repackage, jump around the problem of being biotech companies," he says. "The new vogue is to create designer companies that

are organ- and disease-specific."

About 15 such outfits have been funded over the past year, says Wilkerson. They have names like Neurogen (a firm that is developing an anti-anxiety drug), Regeneron, Neurex, Neurodynamics and Cal Bio, which is developing an appetite suppressant.

A more complete look at the depressing record of new biotechnology stock issues shows why these companies—including at least 400 in existence—are having so much trouble raising cash in the financial markets.

FORBES' computers tracked 60 biotech public offerings since 1980 and found that 73% are selling below their offering price. That's even worse than new stock issues generally do. As a category, the last time we looked (FORBES, June 27), 59% of new issues from 1982 to April 1988 were selling below their offering.

Of the 60 biotechnology initial public offerings we looked at this time around, four have filed for protection under Chapter 11 of the bankruptcy act. About \$969 million was raised by those 60 over the eight-year period, and today they are worth 26% less, or about \$719 million.

The top companies (ranked by their performance relative to the S&P 500) are a varied bunch. Molecular Biosystems, Inc., the best, sold recently at a frothy 100 times earnings, beating the S&P by 301%. The San Diego firm, which has developed a tracking agent that enhances ultrasound images, is doing well mainly because it has quickly developed a medical product

that has nothing to do with biotechnology. The second-best performer, up 428% over its offering price in seven years, was Genetic Systems, which makes AIDS blood tests. Its initial investors did well because Genetic Systems was acquired for \$10.50 a share in 1986 by Bristol-Myers.

Other top performers: Cambridge BioScience, trading recently at 15¾, up 215% in five years, and Nova Pharmaceutical, recent price 6¾, up 200% in five years, are respectively researching AIDS and neuroscience disorders such as pain and inflammation caused by burns and allergic reactions, and both have joint marketing arrangements with big pharmaceutical compa-

The best performers of 1988

Company	Adjusted offer price*	Offer date	Recent price 9/30	—% gain— actual	relative to S&P 500	Underwriters
Molecular Biosystems	\$2.00	7/25/83	\$12.88	543.8%	301.4%	DH Blair
Genetic Systems ¹	2.00	6/04/81	10.56	428.1	218.1	DH Blair
Enzo Biochem	0.87	6/12/80	4.00	360.8	95.8	DH Blair
Cambridge BioScience	5.00	3/31/83	15.75	215.0	77.2	Ladenburg Thalman
Nova Pharmaceutical	2.25	7/29/83	6.75	200.0	79.3	DH Blair

The worst performers of 1988

Company	Adjusted offer price*	Offer date	Recent price 9/30	—% gain— actual	relative to S&P 500	Underwriters
Southern Biotech	\$10.00	8/18/81	— ²	-100.0%	-100.0%	Shearson Lehman
Cistron Biotechnology	1.00	8/21/86	— ²	-100.0	-100.0	DH Blair
Endotronics	2.07	7/21/83	— ²	-100.0	-100.0	Summit Investment
Cytox Corp	2.00	12/19/80	— ²	-100.0	-100.0	Rooney Pace
Diagnon	6.00	7/13/83	\$0.13	-97.9	-98.7	Laidlaw Adams & Peck

*Per common share adjusted for splits. ¹Acquired 2/86 by Bristol-Myers. ²Chapter 11 filings.

While nine of our top performers did better than the S&P 500, the tenth did not.

Who's in the bottom ranks? Tied for last place are four companies that are in Chapter 11. Endotronics, for example, had the FBI and the SEC investigating its books for fraud. Now top managers who were the subjects of

those investigations have departed, and the firm recently came out of bankruptcy protection and announced its shares are trading again. The company makes cell cultures for biotech companies that need to grow cells outside the human body. Also at the bottom is Genex, which nearly went into bankruptcy when G.D.

Searle pulled out of a supply contract with the firm for the main ingredient in the sweetener aspartame, used in Nutrasweet (FORBES, Dec. 28, 1987).

Call them biotech. Call them neuroscience. By whatever name, they are clearly only for those whose portfolios are healthy enough to sustain total loss. ■

While McDonnell Douglas and Airbus Industrie fiddle and faddle, Boeing is burning up the runways.

Boeing by default?

By Howard Banks

ON AND ON they dragged, those interminable talks between McDonnell Douglas and the European consortium, Airbus Industrie, aimed at forging a crucial, cooperative venture in airliner construction. The talks finally collapsed in late September.

Neither McDonnell Douglas nor Airbus Industrie seems able to swallow its pride sufficiently to close an agreement that would allow them to share the at least \$3-billion development cost of the new, 368-seat long-range AM300 passenger jet, which they both agree could be a strong entry against Boeing's 747 Jumbo. At the same time neither is admitting how seriously at odds they remain.

While they fiddle, Boeing walks off with the prize—and what a prize! The civil jet business is booming—and is likely to generate \$22 billion to \$23 billion a year for the next 15 years.

When the talks ceased, the two parties said they were saying *au revoir* but not *adieu*. Then McDonnell Douglas' recently appointed chairman, John McDonnell, had second thoughts because of the high risk of going it alone with such a large investment. By that time Airbus President Jean Pierson was back at his Toulouse headquarters, and his French partner, Aerospatiale, had called its



Airbus President Jean Pierson
Saying *au revoir* but not *adieu*?

own time out; the French were in labor negotiations and didn't want the threat that work might be transferred to more productive American factories taken off the table.

Insiders on both sides of the Atlantic reveal that the real issue is not Europe's national or labor politics. The nub of the problem is that neither McDonnell Douglas nor Airbus Industrie is yet willing to give up its planned programs (the Airbus A330-A340 versus the MD-11, for instance, or new versions of the MD-80 series versus the stretched A320).

Meanwhile Boeing, the dominant producer of civil jets, goes from strength to strength. By October it had taken more than 500 orders since the first of this year, more than its previous best year ever. Its total backlog now stands at over 1,050 civil jets, valued at \$40 billion. And Boeing stands a good chance of getting an

order worth maybe \$5 billion over time from the U.S. Navy for a new reconnaissance plane (the decision due as this goes to press). By the end of this year, the Seattle-based company cash hoard will stand at over \$4 billion and could, on present trends, hit \$5 billion by the end of 1989.

Just as nice, for Boeing, its margins normally a narrow 3% to 4% operating profit on civil jets, are rising, and production rates reach new highs. Boeing has problems, many arise from success, from churning out planes fast to meet market demand.

Examples: For the first time since the original 747, 20 years ago, Boeing will be late delivering planes. The electronic cockpit for the latest 747-400 update has proved a more difficult job than anticipated. There have been well-publicized quality problems, too, but Boeing is shifting 300 senior production engineers from its Renton, Wash. plant (which has had few troubles) to its Everett plant (which has had many) and has added elaborate training programs for new workers.

In its military operation, Boeing bungled the new plastic wing for the updated A-6 Navy attack plane, mostly because it underestimated cost and engineering complications. This division now has a new president, Robert Dryden, ex-IBM and, insiders say, a potential future chairman.

Watch, as it barrels along, for Boeing to use some of its rising cash hoard on acquisitions. Its efforts in the past have been in aerospace—an unsuccessful bid for Hughes Aircraft in 1985, and a successful one for Iqbal Havilland of Canada, which makes commuter aircraft (though it is still losing money and causing a stomach ache at headquarters). Now the vibrations from Seattle betray the distinct possibility that Boeing might turn its eyes outside the aerospace business, hoping that its skills might transfer to making a product with easier—less risky—profits than jumbo jets.

In any case, with McDonnell Douglas and Airbus muffing their chance for a truly competitive joint venture, Boeing seems to have plenty of opportunities waiting, both in the air and on the ground. ■

Winnebago Industries has lost market share in motor homes, top executives have departed, and earnings have been murdered in 1988. So why are some smart investors buying the stock?

Bad news, good prospects

By Rick Reiff

THINGS HAVEN'T LOOKED WELL for \$400 million (sales) Winnebago Industries Inc., the Forest City, Iowa maker of big motor homes.

Profits for the fiscal year that ended in August, though not yet public, probably fell 60% from the year before, to 30 cents a share. Once the top maker of bus-size motor homes, Winnebago, with 21% of that \$2 billion market, down a point from last year, now trails Fleetwood Enterprises Inc. of Riverside, Calif., whose share has climbed to 28%.

Under Winnebago's cantankerous founder and chairman, 75-year-old John K. Hanson, management has been a revolving door. The latest casualties: Chief Executive Officer Gerald W. Gilbert and his top aide, Richard A. Berreth, both ousted last month. Gilbert and Berreth took the heat for production gaffes that stalled deliveries and drove up operating costs. Both former Control Data Corp. executives, they advocated automated assembly line techniques that don't work as well with production of big motor homes as with, say, motor cars.

Hanson's latest shakeup replaced Gilbert with an unwieldy seven-man committee reporting to him—even though he readily admits to now working only "half days, half the time." Hanson is in no hurry to hire another chief executive officer. "We're not nervous," he says blithely. No surprise, then, that Winnebago's

stock is floundering at 9, less than half its high of the last three years. For those investors who are unhappy with the stock's performance, Chairman Hanson has some blunt advice: "Sell."

If this sounds insufferably smug, Hanson can afford to be smug. He and



John K. Hanson, Winnebago founder and chairman
He can afford to be smug.

his family together own 47% of the stock. Moreover, Winnebago still has a strong balance sheet (\$150 million of equity, less than \$2 million of long-term debt), a healthy cash flow (70 cents a share despite this year's reversals), and improving prospects. Although institutions hold less than 15% of this management-controlled company, Manhattan investment firms, including Bear, Stearns and Neuberger & Berman, have been buying the stock for clients.

It is not difficult to see what attracts them. Subtract Winnebago's \$67 million in cash from its recent market valuation, and the company costs only \$6.30 a share. That's just five times cash flow if the company

returns to its usual 5% net profit margin, achieved in four of the six previous years. And Winnebago's 40-cent dividend yields 4.4%.

It also appears that the problems that damaged earnings this summer are largely behind the company. Having modified the costly attempts at automation, Winnebago has gone back to building vehicles on three lines instead of a congested two. Winnebago is again filling all of its orders, for the first time in three months.

In addition, Winnebago's reputation with the public remains intact. Frank Lee, owner of Valley I-5, a Winnebago and Fleetwood dealer in Kent, Wash., says, for example, that Winnebago's redesigned \$40,000 models are arriving problem-free, with added storage and lower roof lines for better bridge clearance. He and other big dealers say that lost sales from July and August are being recouped as the new motor homes finally hit the lot.

Winnebago's diversification ventures are looking better, too. The most promising: Cycle Sat Inc., Winnebago's \$10 million experiment to

beam spot television commercials via satellite to stations around the country. Hanson sees this as his next major achievement, and he may be right. Here's how it works: Advertisers without satellite transmissions must now make dozens of copies of a single commercial and mail each to a different TV station. Hanson says he can save the travel time and cut about \$6 off the \$20-per-tape distribution cost. Cycle Sat is signing up three new advertisers a month. With receivers installed at more than

300 television stations and revenue approaching \$100,000 a week, Cycle Sat is close to breaking even, and there's plenty of room to grow. Several analysts think it can generate 50 cents to \$1 a share in profits for Winnebago within three years.

Admittedly, the motor home business is stagnant, growing only 1% this year, but Winnebago and Fleetwood have added share over the years at the expense of smaller competitors. Demographic trends are with the company. Eight years from now, for instance, the first baby boomers enter their 50s, the age when most Winnebago owners buy their first vehicle.

Looks like a clear case of short-term indigestion, not a chronic illness. ■

Herb Siegel has been cast as the bad guy in his squabble with Steve Ross at Warner Communications. Steve Ross is one heck of a public relations man.

Unhappy marriage

By Gretchen Morgenson

STEVEN ROSS, the high-living boss of Warner Communications Inc., has been married three times and divorced twice, but his most public and acrimonious union involved not matrimony but

business: Because Herbert Siegel of Chris-Craft Industries is Warner's biggest stockholder, Ross and Siegel have a close relationship. It is not a happy marriage. Ross, chairman of the board, runs the company with an iron hand. But Siegel, who owns 21% of Warner through BHC, a Chris-Craft

subsidiary—far more than Ross owns—is in almost constant conflict with him. The conflict is making it rather difficult to run the company.

A lawsuit brought during the summer months by Siegel has stalled Ross' proposed acquisition of Lorimar Telepictures, a major producer and distributor of television shows. The \$700 million Lorimar deal would have brought television production strength and potentially lucrative syndication rights to Warner. Why is Herb Siegel, who as a Warner shareholder ostensibly wants what's best for the company, throwing roadblocks in the way?

In this confused situation, one thing is clear: Warner seems finally to have recovered from the disaster of 1983, when the virtual collapse of its Atari division put it deep into the red. Now its stock trades around 37, about where it traded during its videogame heyday. Wall Street, which has been both up and down on Ross, seems right now to be high on him. Analysts say Ross is a genius, a master of the corporate turnaround, the man who

Harry Benson



Steve Ross, Chairman of Warner Communications Inc.
How does the corporate turnaround is it?

has brought Warner back from the near-bankrupt brink that Atari had driven it to in 1983.

It follows from this that most stock analysts are sour on Siegel. Once welcomed as Warner's white knight, Warner's best protection against hostile takeovers, such as the one threatened four years ago by Rupert Murdoch, Siegel is now treated as an unwanted intruder. Talk to most analysts these days and they'll tell you that Siegel's resentment over watching his power at Warner erode is seriously harming a wonderful company. Jeffrey Logsdon, an analyst at Crowell Weedon & Co., is typical. He says, "Steve Ross has been the long-term engineer of one of the better success stories of the entertainment industry." Gordon Crawford, an analyst with Capital Group whose clients own 8% of Warner's common, argues that Siegel is a menace who is making trouble because Ross runs the company without consulting him.

Neither Ross nor Siegel would be interviewed for this story; both said the pending Lorimar transaction prevented them from discussing the company.

Piecing together information gathered elsewhere, however, *FORBES* is convinced that the truth is much more complex than Ross' partisans would have it. Siegel has been no mere obstructionist. Much of his advice has been sound and in the interests of all of Warner's shareholders.

When Siegel's Chris-Craft first acquired its Warner holdings, Siegel was welcomed with open arms. Rupert Murdoch's 1984 attempt to take over Warner frightened Ross, who, after all, owned under 1% of Warner's shares. With the kind of cash Ross so badly needed, Siegel was someone who could help the Warner chairman out of his bind. Siegel's BHC broadcasting subsidiary bought 19% of Warner's voting stock. In exchange, Ross bought 42.5% of Chris-Craft's BHC. Thanks to this Gordian knot, Murdoch was thwarted and Warner remained independent.

At the time, many people thought Siegel would wind up running Warner, and Ross, discredited by the huge losses Warner took in 1983 when its Atari business collapsed, would be out. But Ross is a survivor.

Today he is so ensconced at Warner that he can do no wrong. He blithely paid himself \$3 million last year, and his employment contract guarantees him millions in annual salary and bonus through 1996.

Whatever his past mistakes, Ross presided over a team that has turned Warner around in the last five years. In the wildly volatile world of Hollywood management, Warner's movie studio has been top-notch and stable. The company's record division was well positioned to capitalize on the compact disc craze, which helped propel revenues at Warner Records to \$1.5 billion last year, up 35% from 1986. Ross' commitment to the cable business, which was made in the company's darkest days when he could not afford to be wrong, has proved to be a sound gamble.



Warner's biggest shareholder, Herb Siegel
The man Wall Street loves to hate.

Does that leave Herb Siegel as a sour-grapes villain? Not quite. It was Siegel who pushed the extravagant, expansionist Ross into cutting costs when the company was bleeding; Siegel pushed Ross forward in the divestment of Warner's nonentertainment subsidiaries, like its cosmetics, Franklin Mint and Warner Leisure restaurant divisions.

For his part, Siegel makes no effort to get his side of the case across. Unlike Ross, he controls no expensively staffed public relations department. Only a single brokerage firm analyst—John Tinker at Morgan Stanley—follows both companies. The others are quick to denigrate Siegel, but they rarely bother to talk to him.

Over the past four years Ross and his friends and his spokespeople have cited incidents as proof that Herb Siegel doesn't understand the entertainment business. Back in 1984, they say, Siegel initially objected to Ross' decision to buy back American Express' 50% interest in Warner Cable. Now Ross' \$450 million cable deal looks brilliant: Marked to the market, the value of the property has doubled. True, but not the whole story.

Untold about Siegel's initial vote on the Warner-Amex deal is why he was against it: He didn't want Ross to buy back the Amex stake if it meant adding leverage to the already precariously indebted Warner. Ross, according to then Warner board member Abraham Ribicoff, wanted to borrow the \$450 million needed to finance the purchase. Siegel, to avoid taking

on more debt, suggested that Ross sell Showtime, MTV and The Movie Channel to raise the necessary cash. Ross eventually came around to this way of thinking; but Siegel erroneously became known as the man who tried to get Warner out of the now lucrative cable business.

Then there's the subject of stock buyback programs. For years, Siegel has been arguing to the Warner board that it repurchase blocks of the company's stock; Ross has demurred. Even enamored Wall Street analysts agree Ross should be buying in shares, especially in the months after the market crash, when Warner stock sank from \$36 to around \$17. Ross' partisans say he won't buy

in his own shares because that would increase Siegel's proportionate share in the company.

But this argument doesn't quite hold. Warner has so many shares outstanding that for Siegel's stake to be increased by even 1% would require a Warner outlay of \$340 million at today's price. And another 1% held by Siegel wouldn't increase his power in any real way. Furthermore, it's unclear that Ross' problem is unsolvable. A stock buyback program would be in Herb Siegel's best interests, since it would increase the earnings power of the stock. So it's conceivable Siegel would agree to keep his ownership percentage in the company the same by selling some of his Warner

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shares at the same time Warner was buying. John Tinker at Morgan Stanley thinks Chris-Craft would be agreeable to such a tender.

But why is Siegel trying to block the Lorimar deal? Sheer pettiness? Not necessarily. Eager to get at Lorimar's television production company and syndication rights, Warner agreed in June to pay \$640 million for the company in Warner stock. But what Warner either overlooked or simply chose to flout was its agreement with Chris-Craft, dating back to the 1984 rescue, promising never to buy control, directly or indirectly, of a company that owns television stations because that would conflict with Chris-Craft's own ownership of stations.

Warner's lawyers called Siegel's Lorimar suit "frivolous." Judge Walter Schackman didn't agree. He ruled for Chris-Craft on summary judgment, meaning he felt the case was so obvious it did not have to go to trial. He granted an injunction preventing the acquisition of Lorimar unless Warner divests Lorimar's stations or its holding in BHC.

But is the Lorimar acquisition such a good one? Money manager Mario Gabelli, who holds for his clients 3.3

million shares of Chris-Craft and 3.7 million of Warner Communications, is not necessarily sour on the deal, but concedes: "Ross was overpaying for Lorimar by \$100 million or so, because he was paying for the acquisition in Warner stock, which should have a value of \$65 a share."

Siegel has objected to Ross' extraordinary employment contract, struck over Siegel's and five other Warner directors' objections in 1987. To put it mildly, it's a sweetheart of a deal—for Ross. According to Warner proxy statements, even if the company's earnings collapsed to 45 cents a share (Warner earned \$2.05 last year) and its stock fell to \$15 a share, Ross would still make a total compensation of approximately \$25.5 million over the ten-year period—averaging better than \$2.5 million a year. If earnings merely stay level and the stock stagnates at \$30 until the end of 1996, Ross will make \$57 million during that time. And, if Warner's net and stock price rise by 12% annually, then Steve Ross walks away with more than \$180 million over the ten years.

And mark this: Ross' contract calls for him to be paid the full amounts in cash, not in Warner stock. Thus, if the

stock market turns bad, Ross' compensation won't be as affected. Nice.

At the time that the contract was put to the Warner board, there were 15 voting members, 9 appointed by Warner and 6 by Chris-Craft. No surprise: All of Warner's appointees voted in favor of the contract, and all of Chris-Craft's directors voted against. Siegel and those who sided with him objected to Ross' deal on the grounds that it was unfair to shareholders.

Now that Ross seems in firm control and able to ignore Siegel's advice, Warner's overhead is on the rise again. In the past three years, sales and general and administrative expenses have increased at least 20% each year.

This is the same Steve Ross who brought Warner to the brink of disaster not so many years back and who now rewards himself for correcting his own mistakes. An old joke from the time when Warner's stock was a dog has a couple of men discussing their woes. One groans after his doctor has diagnosed herpes, "I've got herpes at 58." "That's nothing," his friend retorts. "I've got Warner Communications at 60." Herb Siegel and a lot of other Warner shareholders won't find that funny. ■

When Sumner Redstone shouldered over \$2 billion in debt to take over Viacom, many figured he had grandly overpaid. But thanks to some common sense and spiraling cable prices...

Sumner Redstone scores again

By Lisa Gubernick

YOU COULD ALMOST HEAR the coast-to-coast sniggering when Sumner Redstone took control of Viacom International in June 1987. Redstone paid \$3.4 billion (including \$480 million in equity) for 83% of Viacom (the rest trades on the American Stock Exchange). It seemed a lot of money, and Redstone himself admitted that the only thing he knew about Viacom's MTV, its music-video channel, was "I didn't like the mu-

sic." A year later, he reflects, "I still don't like the music. But I've become enamored of the economics."

With good reason. Thanks in no small part to the 42% climb in MTV's operating earnings in the second quarter, and to the sniggerers' considerable surprise, overall revenues for the diversified entertainment, broadcasting and cable system conglomerate climbed to \$592 million for the first six months of 1988, up more than 20% from last year. Because of heavy depreciation and interest on its acqui-

sition debt, Viacom still reports big losses. But cash flow is strong and rising. At current market values, Redstone's investment in Viacom has already made him over \$700 million (net of debt).

How in such a short time has Redstone accumulated this, his second fortune (his first being National Amusements, the family's Dedham, Mass.-based theater chain)? Think of Lefty Gomez' reply when the great New York Yankees pitcher was asked how come he won so many ball games. "I owe it all," Gomez said, "to clean living and a fast outfield."

Redstone arrived at a time when the company was sorely distracted, first in fending off Carl Icahn with approximately \$30 million in greenmail, and then by a failed management buyout attempt led by former chief executive Terrence Elkes. Elkes was a strong entrepreneur, an expert at assembling valuable programming, broadcast and cable assets. Administration, however, was not his strongest suit.

To impose order on the sprawling company, Redstone brought in Frank Biondi, former chief executive of Time Inc.'s Home Box Office, to replace Elkes after his buyout failed. "Nobody had ever had all the executives sit in a room together," claims Biondi, who began to look for way-



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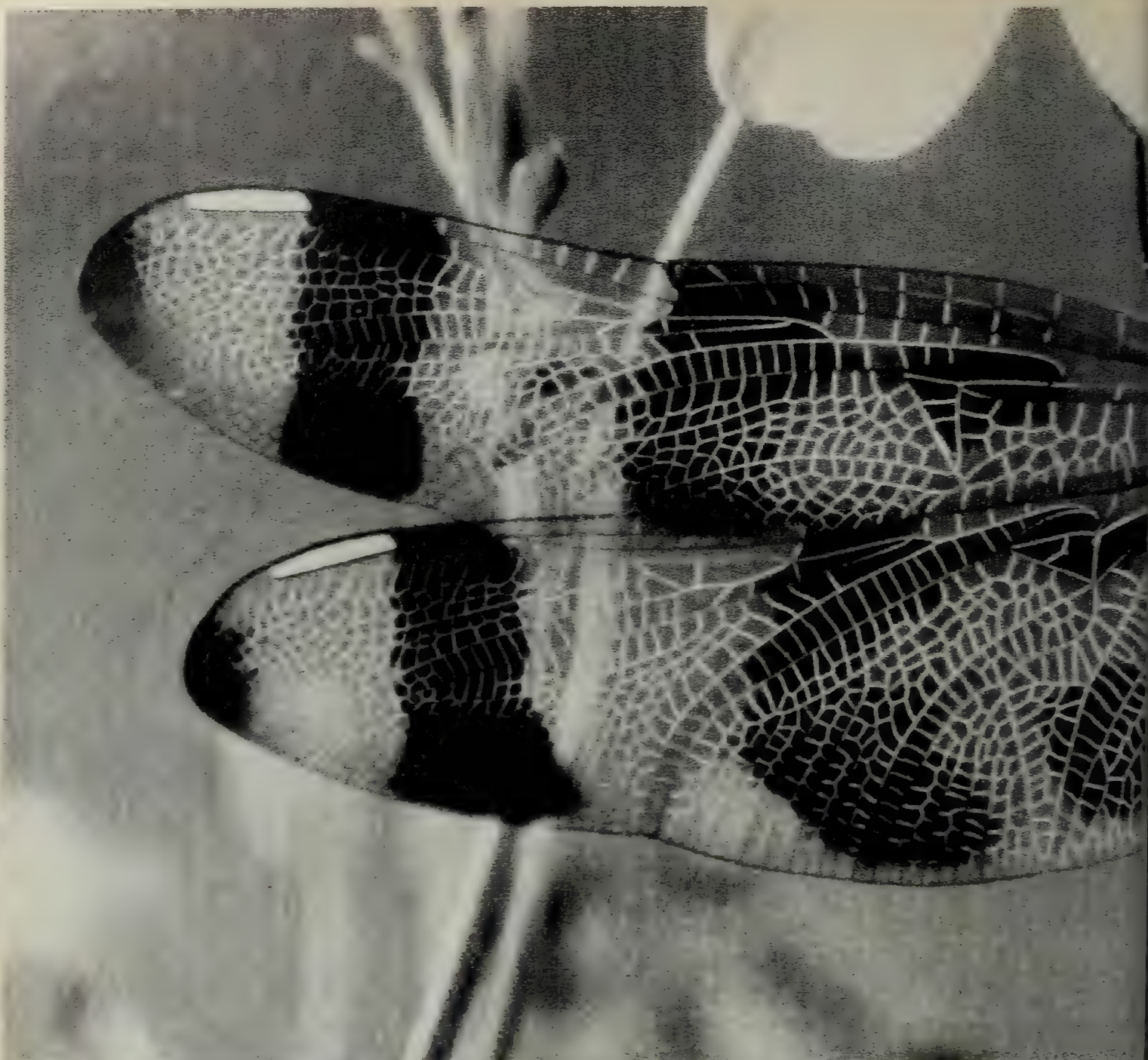
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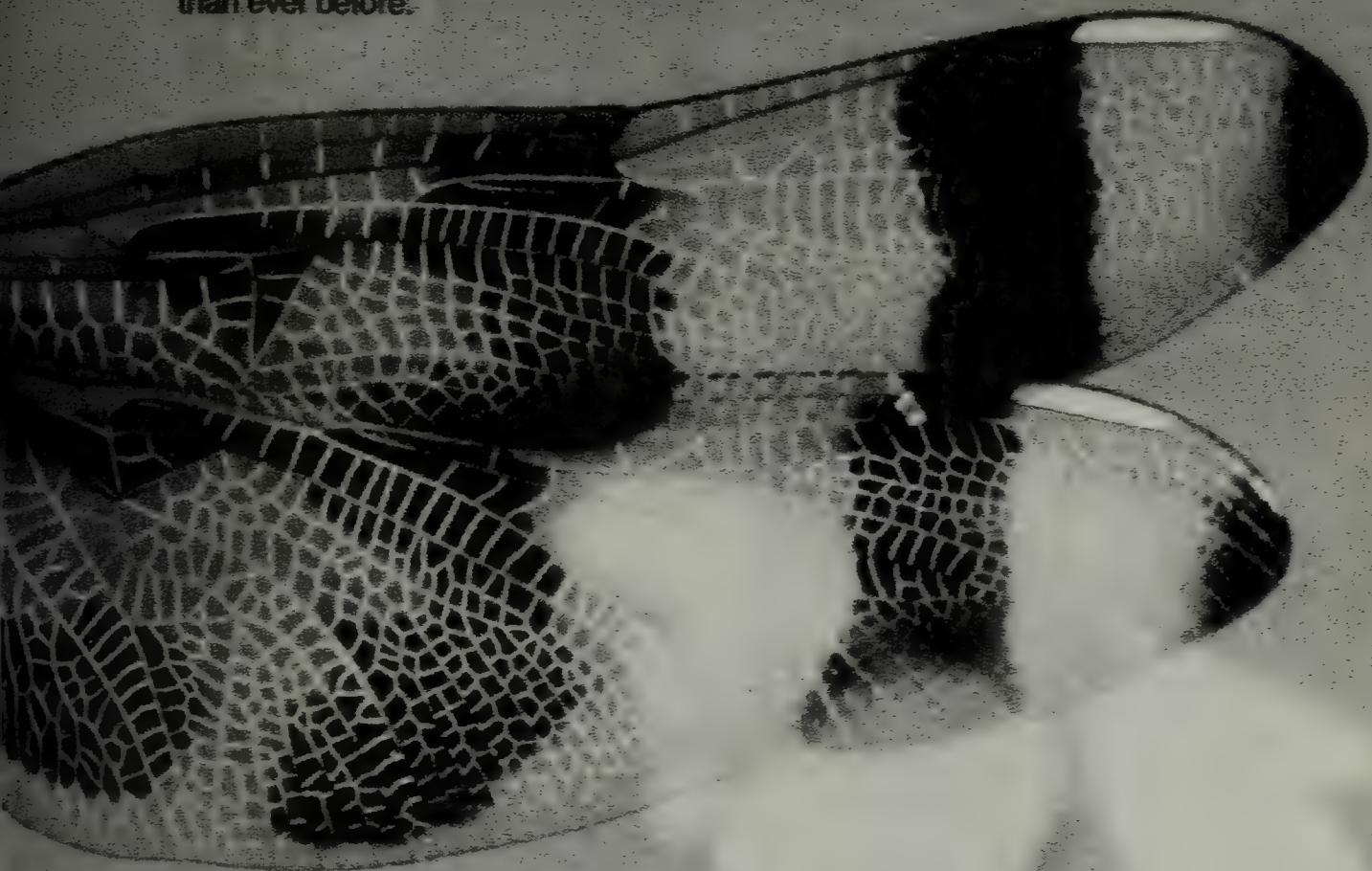
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different parts of Viacom could scratch one another's backs. Says Tom Freston, head of MTV, "After the buyout we were in a highly leveraged state, and Frank wanted to make sure we were operating as efficiently as possible, because, God knows, the obstacles would be high."

The benefits were immediate. Example: Instead of using an outside operator to syndicate its successful children's cable game show, *Double Dare*, to network television as had been

Winston Cox to run Showtime. "One of the problems with Showtime was that it paid too much for product and cut way back on marketing to preserve profits," recalls Cox. "Trying to sell a product without advertising is like winking at a girl in the dark." Cox turned on the lights by doubling Showtime's marketing budget. This enables Showtime to contribute to co-operative advertising between itself and cable operators and provides incentive to cable operators to sell the

Michael Belenky



Viacom's Summer Redstone (seated) and Frank Biondi
Succeeding on clean living and a fast outfield.

planned, Viacom used its own marketers. "The new team had more faith in the product," says Geraldine Laybourne, who heads Viacom's children's cable channel, which spawned the show. So far, *Double Dare* syndication fees have added over \$6 million to Viacom's coffers.

Redstone's biggest problem, however, was Showtime Networks Inc., Viacom's troubled pay-television unit. The bitter takeover battle had left Showtime leaderless for nearly a year and its subscriptions stalled at just over 8 million, a poor second to HBO's 16 million.

From HBO, Biondi brought over

Viacom product alongside HBO. So far, so good. Showtime's subscriber base has climbed to 8.9 million, up nearly 10% over last year.

The cost of buying those subscribers has squeezed Showtime's profit margins. Marketing costs, together with higher programming expenses, resulted in a \$5 million loss during the second quarter. Still, Biondi insists the push will pay off. He points out that unlike HBO, which faces the daunting task of creating brand-new buyers (FORBES, Oct. 17), "all we have to do is pair up with existing HBO subscribers."

Necessity underlies all this com-

mercial virtue. When Redstone took over Viacom, he saddled the company with \$2.2 billion in bank debt. Viacom's interest payments for the first six months of 1988 alone came to \$133 million.

To wring more cash from the old assets, Redstone also decided to part with some of Viacom's old assets. Last August, Redstone sold Viacom's Long Island and suburban Cleveland cable systems for \$550 million (including cash and assumed bank debt)—getting a hefty \$2,700 per subscriber from Woodbury, N.Y.-based Cablevision Systems Corp. He also sold, to Cablevision, a 5% stake in Showtime/the Movie Channel for \$25 million. "That means at least one major cable operator has a vested interest in Showtime doing well," says Oppenheimer & Co.'s Dennis McAlpine. "Even better, it puts a \$500 million value on the operation, at the high end of anyone's valuation."

In the fight over Viacom last year, Redstone said he was more interested in acquiring and improving assets, not selling them. But the spike in interest rates increased the weight of the floating-rate bank debt used to finance the takeover, and Redstone had to move quickly. He also raised some \$500 million in 11%-plus subordinated debentures from the public and used it, along with the proceeds of his asset sales, to pay down bank debt, which, after the cable sale is complete, will stand at a more manageable \$1.2 billion. With the cable sale, Viacom will save \$55 million in interest while forfeiting only \$20 million in net cash flow. Also helping was the \$16 million profit Redstone made after tangling with John Kluge over Orion Pictures last spring (FORBES, Mar. 21).

As things currently stand, 16 months after Redstone's takeover, Viacom is a good-size, nicely balanced media conglomerate. Apart from MTV and Showtime Networks, the company owns five network-affiliated television stations and nine radio stations. For the first six months of 1988, its network division reported \$307 million in revenues, and it will have five shows on network television this season. After the sale to Cablevision, Viacom still operates cable systems that pass over 1.5 million homes in three regions of the U.S. and have 940,000 subscribers. First Boston's Richard Macdonald puts a private market net value on the company of \$3.5 billion, over twice the company's current market value, which is nearly triple what Redstone paid. Is it any wonder the money keeps flowing for Hollywood deals? ■

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Gone to a movie lately? Then you plunked down more cash than Denver billionaire Philip Anschutz parted with to buy the giant Southern Pacific.

Working over the railroad

By William P. Barrett

EVEN IN THE colorful history of railroading it's quite a deal. Denver billionaire Philip F. Anschutz is getting the giant Southern Pacific Transportation Co. (1987 revenues, \$2.4 billion) without putting down a penny of his own funds. As in all leveraged deals, he is saddling debt holders with much of the considerable risk while keeping for himself the great bulk of the considerable upside potential.

This, of course, is a major way the rich get richer, and the secretive 48-year-old Anschutz, whose vast interests include oil, real estate and art, is one of the richest (*FORBES*, Oct. 24). Another reason he got that way is that he has a sharp eye for ways to salvage a bad deal. In this case Anschutz' turkey is his 1984 purchase of the far smaller Denver & Rio Grande Western Railroad (known as the Rio Grande) for \$500 million. That much discussed venture marked his entry into railroading (*FORBES*, May 20, 1985).

Before Anschutz came along, the 118-year-old Rio Grande, which operates over 3,400 miles of track between Missouri and Utah, was debt-free and profitable. Since Anschutz bought the parent, Rio Grande Industries Inc., through his wholly owned holding company,

Anschutz Corp., the landlocked Rio Grande, long dependent on traffic connecting with other carriers, has developed big problems. Among the reasons: the heavy cost of debt incurred to swing the deal, stiff competition from the much larger Union Pacific, which operates across easier terrain, and the loss of key coal-haul-

ing business.

Annual revenues of Rio Grande Industries Inc. have fallen something like 20% over four years—one of the biggest drops among the nation's 16 Class 1 railroads. For the 11 months ended June 30, the latest figures available, revenues came to just \$254 million, on which Rio Grande Industries posted a \$1.8 million net loss.

One way—maybe the only way—for Anschutz to prop up the Rio Grande would be to acquire the nine-fold-bigger Southern Pacific, which operates 20,000 miles of track up and down the West Coast and east across the southern corridor to the Mississippi River. Most significantly, the Southern Pacific connects with the Rio Grande in both Kansas City and Ogden, Utah, making for a potentially formidable network in the West.

Initially, there was one small problem: Chicago-based Santa Fe Industries Inc., owner of the Atchison, Topeka & Santa Fe Railway (known as the Santa Fe), which had bought the Southern Pacific in 1983, wasn't about to sell. But the government and some of Santa Fe's competitors never liked the merger. They and Anschutz' crack legal team went to work on the Interstate Commerce Commission, and the agency ruled last year that the Santa Fe-Southern Pacific merger was anticompetitive. So Southern Pacific went on the block and Anschutz last winter cut his deal, scheduled to close in mid-October.

Rio Grande Industries is paying Santa Fe Industries \$1.02 billion in cash, incurring another \$66 million in fees and assuming about \$700 million of Southern Pacific debt. The source of the new cash? Some \$700 million is secured bank loans at about 11% from a group headed by Los Angeles-based Security Pacific National Bank. Another \$200 million comes from a public offering of 12½% subordinated debentures.

That's \$900 million in new debt. In equity financing—only about one-eighth of the postdeal capital structure, one of the lowest ever for railroads—the sale of new preferred stock carrying a 12% yield is bringing another \$75



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Finally, the Morgan Stanley Leveraged Equity Fund II Limited Partnership is paying \$111 million for 25% of Rio Grande Industries' common stock.

Anschutz himself is putting up no cash. His contribution, besides the smarts to engineer the deal and his determination to succeed, is a mere 25% interest in his struggling, moneylosing Rio Grande. In return, he gets 75% ownership of one of America's largest railroads.

True, as a going concern, the Southern Pacific is not exactly the mint. Partly because of a costly restructuring, it lost \$6 million in the 2½ years ended June 30, on revenues over that time of about \$6 billion, although the recent trend in this very cyclical industry has been more favorable. Income from real estate rentals and sales top those from the railroad oper-

ations and carry the company.

In governmental filings Anschutz says the combined system, operating under the Southern Pacific name, would have a synergistic effect and make a profit the first year. Given the competition, these projections are clearly quite optimistic. They assume, for instance, that there will be no nationwide economic downturn. Besides predicting sharp cuts in costs, they also call for capturing \$100 million in traffic from other lines and another \$75 million through "innovative marketing strategies."

In fact, the new system will be able to make ends meet only through the sale of excess Southern Pacific real estate—primarily rail yards, miscellaneous urban acreage and unneeded rail lines, largely in California. Backed by three appraisers, Anschutz says he can net about \$825 million

over four years—with nearly \$300 million alone from a 47-mile line between San Francisco and San Jose.

So Anschutz is counting on continuing inflated real estate prices in California, continuing economic prosperity nationally and greatly improved railroad management. That's a fair amount of risk. But even if his new railroad craters, Anschutz will be out at most his current \$90 million investment in the Rio Grande.

If, however, things go right and the new system thrives or is even sold at a premium, bondholders will, of course, get back their investments with interest. Highly leveraged Anschutz, meanwhile, will reap many, many times his \$90 million.

Nothing so shocking about that, the way leverage works on Wall Street these days. Just a nice deal for a smart billionaire. ■

Alexander & Baldwin is the only one of Hawaii's original big five companies that's still independent and intact. Bobby Pfeiffer intends to keep it that way.

"Hunkering down is no strategy"

By Marc Beauchamp

EVEN AT 68, Robert Pfeiffer still gets behind the controls of the corporate jet, a Cessna Citation II, to zip over to Maui or Kauai from headquarters in Honolulu. And it wasn't until 1979 that Pfeiffer gave up doing stunts at air shows in a single-engine Citabria. Pfeiffer's most impressive stunt, however, has been keeping his company, \$655 million (1987 revenues) Alexander & Baldwin, Inc., in one piece and out of the bombsights of Wall Street raiders.

A&B looks like your typical tempting target. It is Hawaii's largest sugar producer. It is one of Hawaii's largest private landowners, with some 100,000 acres, mostly on the resort islands of Maui and Kauai. And its San Francisco-based Matson Navigation Co. shipping line carries about 75% of the

container cargo between the West Coast and the islands. It also owns 35% of Pacific Resources, the \$955 million (revenues) Honolulu-based oil refiner (FORBES, Aug. 8). Because of its odd mix of businesses, however, Wall Street has a hard time valuing A&B. So it has historically traded at a discount to the market's multiple. Recently A&B shares fetched around \$33, 11 times trailing earnings.

Bobby Pfeiffer was staring at the clear possibility of losing it all only three years ago, when "Honolulu Harry" Weinberg bought 25% of A&B's stock and mounted a proxy fight for control. Weinberg, an 80-year-old Austrian immigrant who has built an \$850 million fortune through real estate and investments, saw plenty of unrealized potential in A&B's Hawaiian real estate. The land, carried on the books at \$24 million, is probably

worth more than \$1.2 billion, or \$24 a share, says Chief Financial Officer Stephen Holaday. Weinberg couldn't have cared less about sugar plantations and shipping.

But for Pfeiffer, who has lived in the islands since 1921, more was at stake than money. Alexander & Baldwin is a part of Hawaiian history. The company's origins date to 1870 when Samuel Alexander and Henry Baldwin, sons of missionaries, teamed up to plant sugarcane on Maui. In time, their efforts transformed the island. Maui's central plain, today emerald green with cane fields, was once a dusty expanse. Over 50 years, and using Japanese stonemasons, Baldwin created a network of tunnels and ditches 75 miles long to bring water from the island's rainy eastern slopes. Today that network transports up to 450 million gallons of water a day to irrigate 36,000 acres of sugarcane. To get its sugar to mainland markets, Alexander & Baldwin invested in Matson Navigation Co., a shipping line founded in 1882.

Property development, too, grew out of sugarcane. After World War II, A&B's cane workers, many of them immigrants from Japan and the Philippines, demanded better living conditions. Thus did A&B develop the now bustling town of Kahului (pop. 16,000), Maui's main city. Without much exaggeration, Raymond Donohue, Matson's chief financial officer, can say: "A&B is Hawaii."

What's more, A&B is the last of the "big five" Hawaiian companies still intact and still based in Hawaii. Amfac diversified, moved to San Francisco and was acquired. Castle & Cooke,

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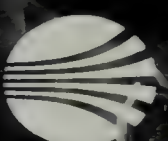
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Alexander & Baldwin Chairman Robert (Bobby) Pfeiffer

David Franzen

"We stayed in our backyard and focused on our core businesses."

now headed by David Murdock, is focusing on its mainland food business. C. Brewer was acquired and then bought by management, and Theo H. Davies was bought by Hong Kong's Jardine Matheson.

"We haven't gone out to conquer the world," says Pfeiffer. "We stayed in our backyard and focused on our core businesses." Several descendants of the founding families remain big stockholders; two sit on the board.

In his dogfight with Weinberg, Pfeiffer argued that sugar and shipping were profitable long-term businesses if given capital nourishment and good management. Pfeiffer prevailed. The board rebuffed Weinberg. Ever the shrewd investor, however, Weinberg bought even more shares.

When Pfeiffer became A&B's chief executive in 1980 after 20 years at Matson, he cheerfully admits he "didn't know a damn thing about sugar. But I knew about costs and our costs were running away from us." His answer: Spend more money. He has spent over \$100 million since 1980 to modernize his two refineries. Computer-controlled steam turbines replaced 1910 vintage Corliss engines. Drip irrigation has replaced overhead furrows. Higher-yielding strains of cane have been developed. Refined sugar is up 14% since 1983, while costs are down 7%, and A&B is Hawaii's lowest-cost producer. (U.S.

sugar prices—21 cents a pound—are protected by import quotas.)

Still, U.S. per capita consumption of sugar and corn sweetener has declined from more than 100 pounds a year in 1970 to around 60 pounds last year. So John Couch, A&B's president, is burning bagasse (cane residue) to power the refineries and to sell electricity to the Maui and Kauai power grids and processing bagasse for use as bedding for mink and horses. He is also looking at high-margin macadamia nuts, coffee and tea.

Pfeiffer has also poured capital—more than half a billion dollars—into the Matson shipping line. He's added new ships and rebuilt others, bought new and more efficient terminal equipment, and modernized his inventory of containers—moving from 24-foot "boxes" to 40-foot containers—to move even more California lettuce, beer, ice cream, construction materials and new rental cars from the mainland. Buoyed by the robust Hawaiian economy and record construction in the islands, Matson's operating profit has nearly quadrupled since 1980, to \$118 million last year.

Even so, Matson President Michael Wasacz is planning for the cooling of the Hawaiian economy. He's looking at new markets like the growing mid-Pacific region, which includes the large military population in the Marshall Islands. "Matson needs to

grow," he says, referring to new competition from Sea-Land and American President Lines' application to enter Hawaiian trade. "Just hunkering down to protect what we have in this niche is not a good strategy."

Despite the progress in sugar and shipping, it is A&B's real estate that's caught the eye of some on Wall Street. At the 1,500-acre Wailea residential-resort community on Maui, A&B sold land for three new hotels, all financed largely with Japanese money. House lots overlooking the resort's two golf courses are fetching up to \$300,000 each. (Japanese aren't the only buyers. A&B sold a 150-acre parcel overlooking the Pacific near Hana to former Beatle George Harrison.)

In Kahului, A&B is expanding its 250-acre industrial park and leasing build-to-suit space to national tenants like Safeway and the Sizzler restaurant chain. More, A&B is nearing government approval to develop an additional 1,200 acres surrounding the town, effectively doubling its population over the next 10 to 15 years. Meanwhile, A&B is patiently working to get plans for several other large resort developments on Maui and Kauai through the government bureaucracy, a process that can take as long as 14 years. "We've got projects to carry us for the next 30 years," says Robert Sasaki, senior vice president of properties. "The big advantage for us



How the West was won.



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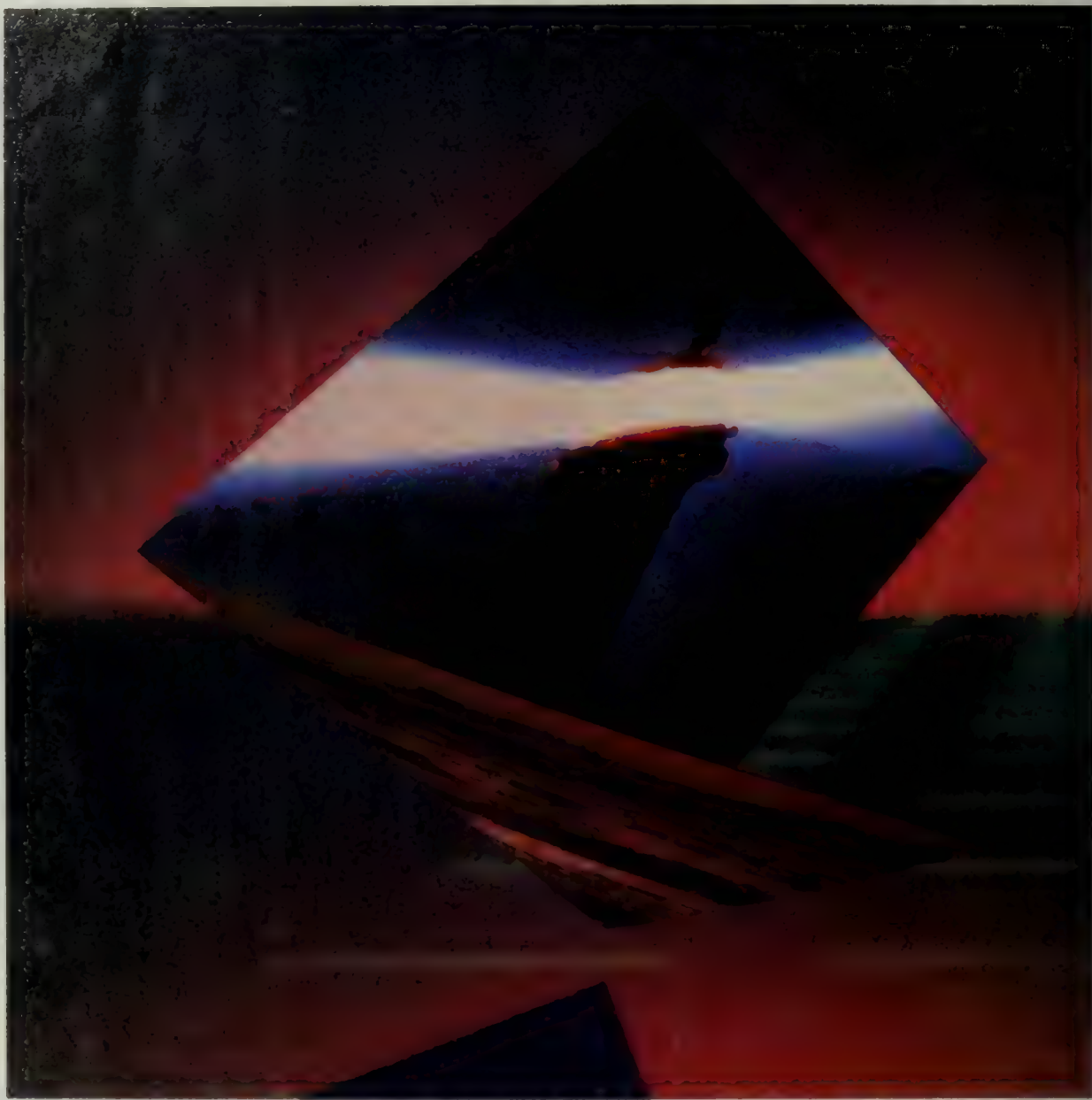
Just as on that memorable day 119 years ago, the West is celebrating the symbolic driving of a second Golden Spike. The long-anticipated consolidation of the Southern Pacific and Denver & Rio Grande Western railroads has been completed. The dream of a new single-carrier system through this historic Central Corridor is a reality. The West, as never before, is one.

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...big projects approved rather than individual properties." He adds: "We're not like someone with one piece of property, where you can really get stuck."

Pfeiffer's efforts have paid off for shareholders. Since 1983, revenues have grown 45%, profits 126% (to \$120 million last year). Margins have

expanded from 11.7% to 18.4%, and return on equity has averaged 18%. Meanwhile, dividends have been increased five times for a total of 140%. Last year Weinberg sold 3 million of his shares back to A&B for \$154 million (he continues to own about 15% of A&B's 50 million shares). "I would think he would be happy," says

Pfeiffer. (The secretive Weinberg declined to speak to FORBES.)

Pfeiffer, whose contract was recently extended until at least 1991, named the corporate jet "Imua," one of his favorite Hawaiian words, meaning "forward." That is Pfeiffer's mission—and his message to Wall Street raiders. ■

Longs Drug Stores may be the best-managed chain of its kind in the nation. Its secret? It may be the least-managed chain.

Managers as entrepreneurs

By Ellen Paris

THE LINKS in a chain of stores are, by definition, supposed to be pretty much alike. They stock and sell the same items at more or less the same prices. Store managers, rarely well paid, take orders from headquarters and run their stores by the company handbook.

But centralized control and cookie-cutter merchandising aren't for everyone. Take \$1.8 billion (fiscal 1988 revenues) Longs Drug Stores, Inc. With 234 stores in six western states, Walnut Creek, Calif.-based Longs consistently outperforms the retail drug-store industry by discarding the usual chain-store formula.

Visit Longs' two stores in Walnut Creek, a "bedroom community" 23 miles northeast of San Francisco. You'd hardly know they were part of the same chain. One store, hard by a large retirement community, stocks plenty of aspirin, laxatives and other products used primarily by senior citizens. Precious little shelf space, understandably, is taken up by feminine hygiene products, Pampers or baby food. Says store manager Larry Gherlone, "I stock smaller sizes instead of family sizes." The Longs store across town, however, serves a neighborhood dominated by upper-income professionals with young families. Store manager Danny Van Allen does



Chief Executive Officer Robert Long
No cookie-cutter stores.

especially well selling videocassette recorders, stereos and cameras.

Or visit the Longs in Tarzana, in southern California's San Fernando Valley (which has a sizable Jewish population). Over the recent Jewish holidays it ran specials on boxes of matzos and jars of gefilte fish, items you certainly won't find at Longs in Redding (pop. 57,000), in rural northern California.

"Our store managers can think and reason for themselves," says Chief Executive Officer Robert Long, 50. His father, Joseph (now 76 and chair-

man), cofounded the company with his brother Thomas 50 years ago. "They literally customize their stores to the customers they serve. We don't believe in cookie-cutter stores."

That strategy yields enviable results. Longs leads all large drugstore chains in sales per employee (\$147,000) and sales per store (\$7.8 million). And compare Longs' sales per square foot (\$455) with that at Walgreen (\$326) or American Stores' Osco chain (\$275). Longs turns its inventory about nine times a year, compared with the industry average of around six times.

Such decentralized decision making, of course, depends on good managers. To get them, Robert Long does more promoting from within than raiding competitors. Says William Combs, vice president-administration and treasurer: "You're turning the keys over to an individual to operate an \$8 million store, and if they don't know what the heck they're doing, you're in big trouble."

Longs deals with its managers almost as if they were independent entrepreneurs and pays them accordingly. Including salary and bonus (a percentage of net profits), a Longs manager, by one outside estimate, can make up to \$80,000 a year. "I like to think of myself as the chairman of an \$8 million company," says Walnut Creek manager Gherlone, 45, a manager for 12 years.

Clearly, Longs managers really do call the shots. The majority of their merchandise is purchased at the store level, either direct from manufacturers or from local wholesalers and jobbers. Advertising, too, is done locally. Managers choose which departments to have and how large to make them. One Longs manager noticed there wasn't a good greeting card shop in his area, for instance, so he expanded his and does nicely with cards and wrapping paper.

So what does headquarters do? Only 400 of the chain's 12,000 employees work at the head office. Headquarters offers legal support and helps the stores with invoicing, accounting, and purchasing fixtures and equipment. "The stores," says Combs,



Joy Wolf Gamma-Liaison

A Longs drugstore in Tarzana in southern California's San Fernando Valley

Dealing with managers almost as if they were independent entrepreneurs, and paying accordingly.

"should be concentrating on merchandising and their customers." There is a book of operational guidelines, but it contains general information on benefits, personnel, check cashing and the like.

Unlike most other drugstore chains, too, Longs has expanded slowly and conservatively—not least because it prefers to buy the land under its stores. Before it buys, the company studies local demographics, traffic patterns and competition to weed out marginal locations.

Longs targets areas with strong income levels and usually sites stores in suburban shopping centers with a supermarket as a neighbor to ensure steady traffic. The formula works: Longs closes very few stores—only 2 in the last five years. The stores are mostly large, on average about 23,000 to 25,000 square feet. And of course it doesn't hurt that 198 of Longs' 234 stores are in California, with its strong and diversified economy. Longs has a commanding 20% share of this rich market.

Despite intense competition in California from Osco, K mart's Pay Less, and Thrifty Corp. (owned by

Pacific Enterprises, the Los Angeles-based utility holding company), Longs' aftertax margin on sales—2.8% last year—is better than the industry average of 2.5%. Still, the chain could improve those margins with a more centralized warehousing system for shipping inventory that is common to all stores—a possibility Longs is currently studying.

Another way to fatten margins: Longs, like its competitors, is pushing more pills and other higher-margin drugs from its in-store pharmacies. Pharmacy operations now account for about 17% of sales. To bring more people into the pharmacy, Longs offers free cholesterol and blood pressure screenings. "By emphasizing health care," says Bruce Buckley, editor of the trade journal *Drug Store News*, "Longs is cultivating the idea of the pharmacist as a health care consultant. If people trust the pharmacist, it makes them want to come back."

At first glance Longs stock seems to be fairly valued these days. The shares, recently 36, near their 52-week high, trade around 13 times this year's estimated earnings. Even so,

the price may not reflect true earning potential or the value of Longs' assets. No drugstore chain has a healthier balance sheet. Longs has no long-term debt. It also owns 57% of its stores, mostly valuable suburban California real estate—not reflected in Longs' book value of \$14.37 per share.

Net income, which has grown 10% a year for the past ten years, is getting a boost from lower tax rates and an aggressive stock repurchase program. Net income in fiscal 1988 (ended Jan. 28) increased 28% from the year before, to \$49 million. (In the last 33 months Longs has bought back 2.5 million shares.) Of the company's 20 million shares still outstanding, employees now own 12% and the Long family around 26%.

All of which raises questions about the company's future. "I wonder," muses Sutro & Co.'s respected analyst Jonathan Ziegler, "is Longs gradually going private?" Longs says it has no such plans. But if it did decide to go private, Longs would have to pay a premium to market value based on the company's future prospects and the value of the company's large real estate holdings. ■

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After 20 years of smooth sailing, Sea Containers Ltd. almost sank. Founder James Sherwood deftly navigated the storm.

Back on course

By John Heins

TWO YEARS AGO James Sherwood was captain of a listing ship. Bad times in the shipping industry had finally caught up with his \$745 million (1987 sales) Sea Containers Ltd., which leases marine cargo containers and ships and runs a ferry and freight transport business in Europe. Among his routes: the Dover-

to-Calais ferry run across the English Channel.

Sherwood was caught with too big a fleet at a time when lease rates for containers and containerships were falling sharply and big shipping companies were going broke. Sea Containers lost nearly \$50 million (\$6.28 a share after preferred dividends) in 1986, its first loss ever, and creditors started to howl. The New York Stock

Exchange-listed shares fell to 12, of 73% from 1985's high.

"It was all quite traumatic," says Sherwood now. "For us, this hadn't been a cyclical business at all." Indeed, Sea Containers had enjoyed 20 years of prosperity since Sherwood, an American raised in Lexington, Ky., founded the company in London in 1965. Rapid growth in world trade and increasing use of the specialized containers Sea Containers focused on—refrigerated ones, say, for bananas or fish—kept profits growing steadily. From 1974 to 1984, earnings grew an average 25% a year.

However unprepared he was for dealing with adversity, Sherwood did a smart job of getting Sea Containers back on course. He did the standard things: cutting payroll by 10%, closing down moneylosing ferry and freight routes in Europe, and selling off or scrapping run-down and surplus containers and ships.

What he did not do was panic. Using bank lines of credit and proceeds from a convertible preferred stock offering, Sherwood coolly kept building for the future. He spent \$50 million in 1986 to continue replacing aging standard containers with more specialized ones, increasing Sea Containers' emphasis on its "specials" niche. He spent \$16 million to refurbish the company's Sealink ferries, installing more comfortable seating and improving the high-margined food and entertainment services on board, and to buy Hoverspeed (U.K.) Ltd., a tough Hovercraft ferry competitor between Great Britain and France.

Now, with its markets improving, Sea Containers has reaped the benefits of Sherwood's steady hand at the helm. Consolidation in the container business has taken away much of the industry's excess capacity. Demand for specialized containers, now 70% of Sea Containers' inventory, is growing more rapidly than that for the standard dry containers primarily leased by competitors ITEL Corp. and General Electric's Genstar Container Corp. So that their bananas, citrus and other products arrive at the docks fresher and more easily transported, companies such as United Brands, Dole and Del Monte are increasingly turning to specialized refrigerated and tank containers like those offered by Sea Containers. As a result, 88% of Sea Containers' containers are currently leased, up from 74% two years ago. Lease rates, after falling for years, are growing a strong 5% a year.

The spiffed-up ferry and freight transport business is also showing good gains. Bookings are up some



Sea Containers Ltd. President James Sherwood
What he did not do was panic.



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*Sealink ferry in port at Dover, England
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30% this year at the Sealink subsidiary, aided by a strike at a competitor and by the strong British economy fostering increased travel and trade.

The result? Sea Containers should earn \$3.85 per common share on operations this year, up 78% over last year. Because increasing lease rates go almost directly to the bottom line, Shearson Lehman Hutton analyst Burton Strauss figures the company could earn \$5 a share next year.

Sherwood isn't wasting time patting himself on the back. He's spending \$70 million for two ships that, once refurbished, will ply the Dover-Calais ferry route. Sherwood also wants to expand Sealink's route system throughout Europe in anticipation of increased traffic between European countries when trade barriers are dropped in 1992. Finally, to meet already existing lease demand, he plans to spend \$200 million in the next year to acquire new containers and ships.

Sea Containers also has some 650 acres of valuable real estate around its U.K. ports, acquired from the British government in 1984, on which Sherwood plans to build residential housing. With real estate prices continuing to rise rapidly in the U.K., he expects the eventual profits to be substantial.

Remembering the lessons of the recent past, however, Sherwood is keeping a careful eye on debt. So far this year he's paid down \$144 million in debt, partly with the proceeds of the March sale of Sea Containers' London headquarters building. That debt reduction, coupled with the planned retirement of two issues of high-cost preferred shares, should save up to \$15 million a year in interest costs.

Surprisingly, Wall Street remains indifferent to Sea Containers stock. At a recent 25%, the shares trade for only 6.7 times expected 1988 earnings, 43% below the average expected S&P 500 multiple. At that price, some savvy money managers are stepping in to buy. John Templeton's Templeton, Galbraith & Hansberger, a longtime holder of the stock, has been buying recently and now owns around 20% of Sea Containers' shares. St. Louis-based Lindner Management, value hunters who run the excellent Lindner Fund, have also taken a significant stake in recent weeks.

"Investors want to be convinced that this is not just a flash-in-the-pan turnaround but is a true recovery," says Sherwood, who still owns 6.7% of the stock. "I plan to convince them." Full speed ahead. ■

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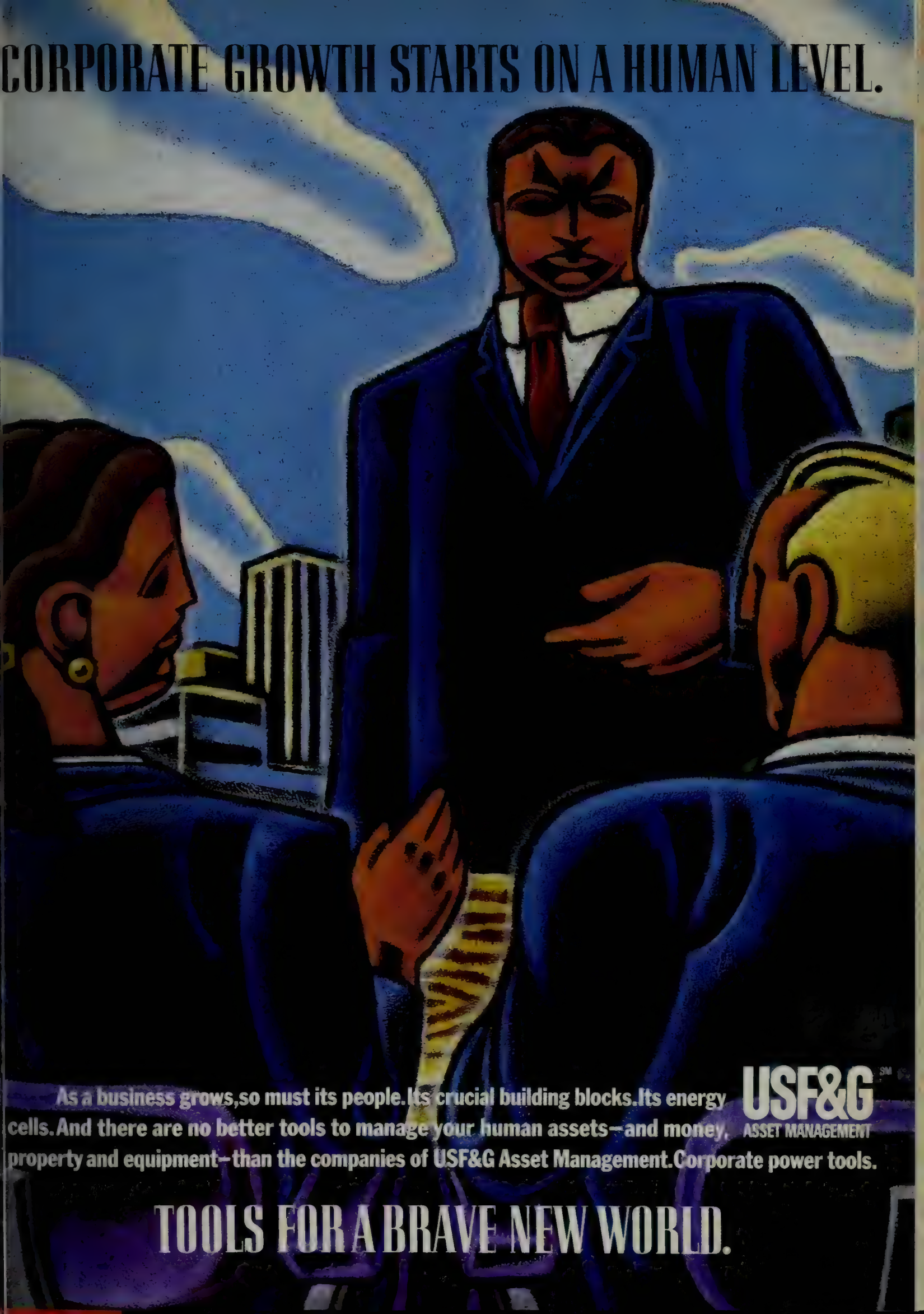
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A stylized, high-contrast illustration in shades of blue, red, and yellow. It depicts a man in a dark suit and red tie standing in the center, gesturing with his hands. To his left, a woman with dark hair and a gold earring is shown in profile, looking towards him. To his right, the back of a man's head and shoulders are visible. The background features a stylized cityscape with a prominent skyscraper and a cloudy sky. The overall style is reminiscent of mid-20th-century graphic design.

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How the rich get richer

By Richard Behar

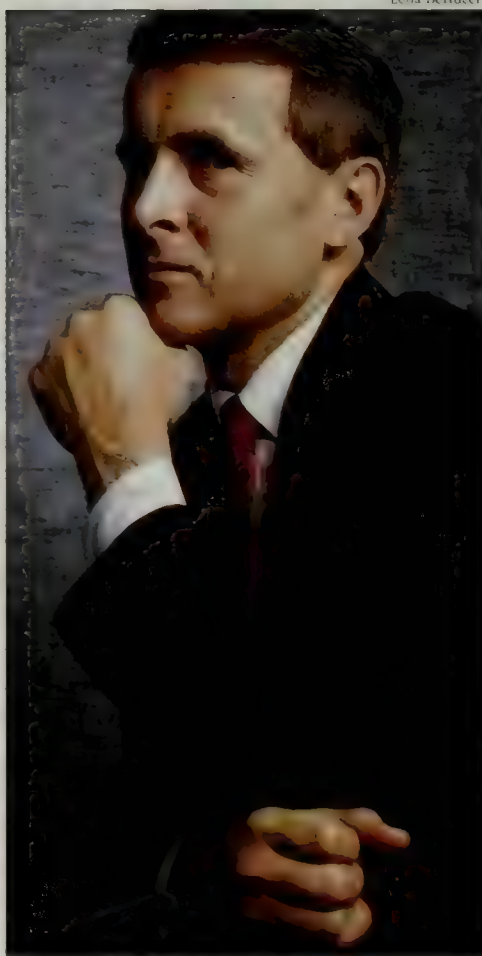
IN EARLY 1986 Intermedics, Inc., a small pacemaker company based outside Houston, was at death's door. The company had lost \$20 million the previous year on revenues of \$163 million, and had defaulted on \$37 million in bank loans. Its shares, which had sold as high as 25 in 1982, dropped as low as 4 two years ago.

And who began investing in the company? On advice from Cilluffo Associates, an investment group, the Phipps clan of Palm Beach and New York took a stake. By March of this year the Phippses had accumulated about 12% of the 18.5 million shares. Another group led by the Bass family of Fort Worth, Tex., had earlier become players. The Basses lent Intermedics \$15 million for four months. With bankruptcy looming, Intermedics had to pay through the nose. The price for the loan: a four-month interest rate of 22%, plus exercisable warrants for nearly 2 million shares of Intermedics stock at \$3.75 per share.

Last July Sulzer Brothers Inc., a \$3.6 billion (sales) Swiss conglomerate, stepped in and bought Intermedics for \$43 per share, or \$810 million. For its \$15 million loan, the Bass group not only got their money back at 22%, but also made an additional \$77 million on the warrants.

Did the Phippses and Basses have inside information? No, they simply realized that Intermedics was a basically sound company with bright prospects under better management.

In what must rank as one of the quickest turnarounds on record, Richard Gilleland, 44, restored the company to profitability. Last year Intermedics earned \$20.6 million from continuing operations—\$1.22 a share—on sales of \$193 million, and it will earn about 50% more this year.



Intermedics' Richard Gilleland
Helping the rich get richer.

Intermedics began life in 1974 as the brainchild of Albert Beutel, a young heart pacemaker salesman who believed that a doctor's relationship with a salesman was every bit as important as the gadget itself. To build these relationships, Beutel coddled his salespeople. He lured away top salesmen from rival firms by handing out 23% commissions, stock options and fancy cars. In 1979 Beutel was killed in a helicopter crash.

Yet where Beutel was simply daring, his successor was downright reckless. Under Russell Chambers,

then 61, an Intermedics director with no previous experience in the medical industry, costs spiraled out of control. Between 1983 and 1986 Intermedics lost \$51 million from continuing operations, while growth in pacemaker sales came to a halt as more and more doctors stopped using Intermedics' products for fear that the firm wouldn't survive.

Chambers may have been too busy to notice the company's plight. During his reign, he presided over a build-up of the company's fleet of 84 autos, two yachts and even several Indy 500 racecars. Former employees say that workers were often ordered to work on racecar engine parts when they should have been working on pacemaker assembly equipment.

In 1986 the board forced out Chambers and brought in Gilleland, a conservative, Nebraska-bred executive who for 18 years had climbed the corporate ladder at American Hospital Supply Corp. Shortly before Chambers left, the Basses took out their checkbook. Shortly afterward, the Phippses began buying the stock.

"Intermedics was a country club," says Gilleland, recalling his first week on the job. "Most employees were arriving to work late, expense account abuse was rampant and nobody ever thought we owed the stockholders anything. Values around here were really warped."

Gilleland cut 19 of 22 vice presidents who claimed to have been reporting directly to Chambers. Backed by a team brought over from American Hospital Supply, Gilleland next tackled 62 legal claims against Intermedics that ranged from patent infringement to breach of contract. In most instances, says Gilleland, Intermedics was wrong and he ordered the suits settled. The biggest was a \$39.5 million settlement of a patent infringement suit by Medtronic, the U.S.' leading pacemaker company.

With costs down and the salespeople selling harder, Intermedics' pacemaker profits have improved dramatically, as have profits in the company's smaller units, such as orthopedic implants (artificial hips and knees) and heart-valve components.

Desiring to cash in, the Phipps family and Cilluffo engaged Salomon Brothers to find a buyer. Realizing a sale of the company was inevitable, Gilleland brought in the Swiss firm as a white knight. And so, the rich got richer while the less knowledgeable shareholders sold out at the bottom. For his part, Gilleland did not go unrewarded. His total compensation has reached \$10 million. ■

Don't be fooled by the high yields promised on Wall Street's latest and most exotic version of the mortgage real estate investment trust. It should carry a warning label.

Danger: can explode

By Laura Jereski

IF A BROKER calls to pitch something called a CMO residual real estate investment trust, hang up.

Thanks to the stratospheric yields sales folk claim for them, Wall Street has sold nearly \$500 million of these REITs so far this year. But look out. This is no investment for the faint-hearted or for the unsophisticated. These REITs have very little to do with real estate. Instead, they invest in a newfangled instrument that's so volatile even many institutions don't want to hold it.

These trusts buy residuals, the result of packaging mortgages into collateralized mortgage obligations, or CMOs. For example, a pool of 10.5% mortgages generates cash flows that can support bonds with a wide range of interest rates and maturities. The residual is the difference between what the mortgages bring in and what the CMOs pay out. In the early years, when the shorter-term, lower-yielding CMOs are being paid off, the residual throws off most of its cash. That's why the new trusts promise such high yields—up to 22%. But the residuals' cash flow can turn negative in the later years if the interest and administrative costs of the CMOs exceed the mortgage interest.

That, in turn, means trust managers must keep attracting investors (or borrow from a bank) to get new money in order to keep buying the new residuals that produce those advertised high yields. And they have every incentive to do so, since these products generate fat management fees. At American Southwest, for example, fees totaled \$2.4 million for the first six months, a stunning 25% of net income. In a typical equity REIT, the fees average 13% of net income.

There's more. For the investor, that high current yield may not be income at all. It may be just the trust returning his principal. And the rub is, the investor has no way of knowing. Why? Because the value of the residual depends on how and when interest rates move.

Managers of these trusts, therefore, must load their portfolios with esoteric instruments like strips, floaters, reverse floaters and zero coupon bonds to hedge against vagaries in interest rates. Hedging hasn't been easy lately. In the past few weeks the London Interbank Offering Rate (Libor), the applicable benchmark, has inched up, while mortgage rates have been relatively stable. The trusts are being forced to pay more on the bonds without a corresponding increase in mortgage prepayments to bring in extra cash. So far, four REITs have been forced to cut their dividends.

With all that could go wrong, you'd figure the REITs would probably be managed by rocket scientists. No such luck. Few have experience in the derivative mortgage markets. Instead, many new trusts are offshoots of home builders, including NVRyan, MDC Holdings, and Estes Homes.

And why not make a little vigorish? American Southwest's affiliate made \$7 million off the sale of \$47 million of residuals. Residential Partnership

Do-it-yourself treadmills

These real estate investment trusts are stuck on a treadmill of their own design. They promise investors big yields, thanks to their investments in high-yielding, volatile mortgage residuals. But to keep yields high, they must attract ever more capital to buy fresh residuals.

Real estate investment trust	Price	Yield
American Southwest Mortgage Investments	9	20.1%
Countrywide Mortgage Investments	6½	15.0
Emerald Mortgage Investments	9	15.0*
Lomas Mortgage Corp	19¾	12.8
MDC Asset Investors	15½	18.1
RAC Mortgage Investment	9⅞	10.1
Residential Mortgage Investments	4¾	21.9
Residential Resources Mortgage Investments	9⅝	19.9*
RYMAC Mortgage Investors	10	NA
Strategic Mortgage Investments	15	16.0
TIS Mortgage Investments	10	NA
NA: Not available. These recent issues have not yet declared their first dividend. *Estimated.		

Any change in rates that affects the way the mortgages pay down or what the bonds have to pay out will affect how much cash goes to REIT unit holders. When interest rates fall, homeowners rush to prepay their mortgages, which ends up reducing cash flow to the residual REIT holders.

So investors won't know for several years whether their income was in fact yield or whether they were just getting back their equity investment. Should rates change so much that the residual disappears, too bad. There are no other assets to tap.

paid its affiliate some \$2 million on the sale of \$53 million worth, and Emerald \$3 million on \$77 million. A fair price? No way to tell. Accounting rules are vague at best, and often run at odds with tax rules, which can force REITs to pay out to investors more than they actually took in.

All things considered, CMO residual REITs ought to be resisted. The sales effort behind them is reminiscent of the bad old days in the 1970s, when a lot of REITs got into serious trouble trying to keep their extravagant promises. ■

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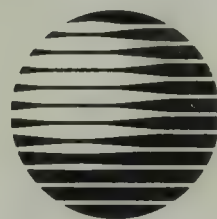
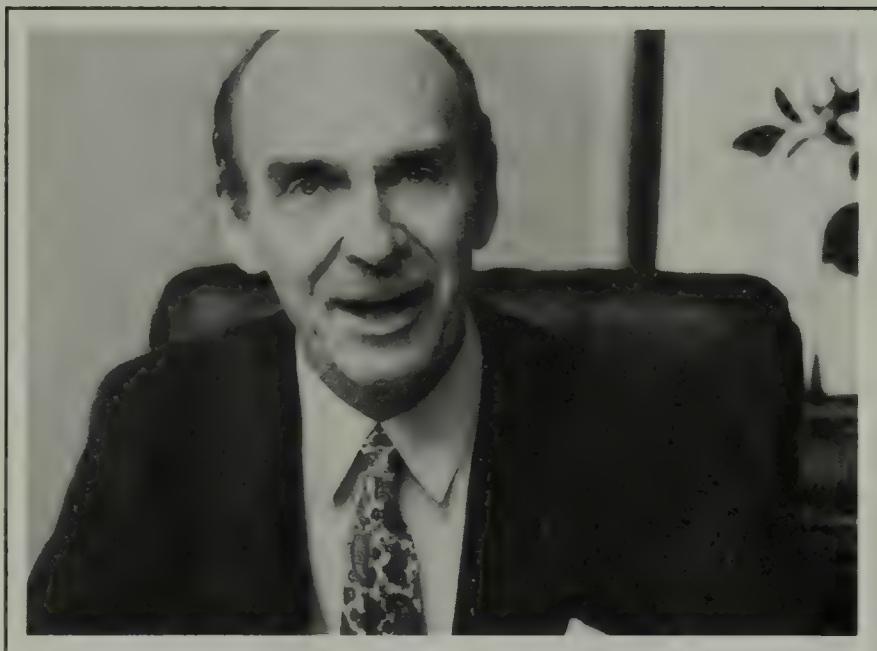
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The right choice.

Some men achieve riches. Others have riches thrust upon them. Here's how Wellman, Inc.'s Thomas Duff experienced both.

"A perfect LBO candidate"



Wellman Chief Executive Thomas Duff
"Luck is when opportunity and preparation meet."

By James Cook

FOUR YEARS AGO, when Thomas M. Duff, 41, the cheerfully exuberant boss of Clark, N.J.'s Wellman, Inc., began looking into ways of selling out the company, the last thing he ever expected was that he would wind up a multimillionaire himself.

Wellman was doing nicely at recycling nylon and polyester. But Arthur Wellman Jr., who had a controlling interest in the company, wanted to get out, and he didn't like the idea of going public. So Duff began looking around for buyers. To his surprise, the company attracted the attention of

Providence's renowned Narragansett Capital Corp. Sell out? The venture capitalists at Narragansett widened Duff's horizon by planting another question: Why not a leveraged buyout instead?

Some men just have to have riches thrust upon them.

"I'd never done that kind of thing before," Duff recalls, "but we were a perfect LBO candidate. We had the ability to continue to generate cash and grow the business without being strapped, and we had a management that could be improved. So we went for it."

The price: \$132.6 million, including the prepayment of \$55.1 million

in debt. The debt portion of the deal came from banks (\$35 million at 10% interest), from Prudential, from Teachers Insurance & Annuity Association and from Narragansett itself (\$75 million at 14.5% and 16% interest). The equity portion (\$14.7 million) came from these three venturing partners and from Wellman's own management.

Who ever heard of Wellman? Some people might remember Wild Bill Wellman, the renowned director of movies like *Public Enemy*, *Battleground* and the original version of *A Star Is Born*. But hardly anybody had ever heard of his brother, Arthur Sr., or the company he founded. Yet the company had been building a steady reputation for itself for over a half-century, first in wool trading, importing and reprocessing and then, since the mid-Sixties, in recycling nylon and polyester waste products.

Wellman, Inc.'s growth these days is driven by its raw materials supply. Wellman grew modestly in the Seventies on waste it picked up from big chemical companies. In the early Eighties it began to boom by recycling empty soda pop bottles, which more and more states were encouraging consumers to return. With a proprietary process for recycling these PET (polyethylene terephthalate, that is) bottles, Wellman quickly moved in and got a hammerlock on the market. Far and away the U.S.' largest plastics recycler, Wellman now handles over 70% of the 140 million pounds of PET bottles that are recycled every year. It's not a glamorous business, but it's a highly profitable and fast-growing one. Says Duff, recalling the wisdom of baseball's Branch Rickey: "Luck is when opportunity and preparation meet."

Wellman doesn't simply recycle raw materials. Unlike other plastics recyclers, it has moved downstream into higher-margined specialties—fiber fill for the furniture industry, non-woven textiles for landfills and pond linings, and nylon and polyester fiber for carpet manufacturers. The carpet market is the big one, providing some 30% of Wellman's sales. The company has been so successful in it that it now ranks second (after Hoechst Celanese) in the polyester carpet fiber industry. This market has exploded in the last year or so, which hasn't hurt, but Wellman made its way by grabbing market share from competitors like Du Pont and Hoechst. "We don't sell at any discount," Duff says. "We say, 'Hey, here's a quality product that performs.'"

As you'd expect from a small-batch



*Harry Selker, M.D.
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Wellman's manufacturing costs are higher than those of the chemical giants it competes with. But thanks to its low-cost raw materials, its overall costs are lower. Wellman caps that advantage with manufacturing facilities flexible enough to shift from product to product and market to market as opportunity beckons, something the industry's giants with their high-volume dedicated equipment cannot do so readily. The result is that over the past 10 or 15 years, when most producers were operating well below capacity, Wellman's fiber operation has gone on running full out—even as Duff was expanding the company's capacity fourfold.

Duff does not pretend that the growth of the past several years can go on forever. Nor does he want it to, if it should threaten the manufacturing flexibility that underlies Wellman's operating efficiency and profitability.

Competition seems to be heating up. Dow Chemical, for example, now plans to go into the PET recycling business—the first major chemical company to do so. But Duff is already looking for other opportunities. As plastics recycling develops, Duff thinks the various plastics are going

to be recycled as a mixed stream, not separately. If that's the trend, Wellman can ride it. Indeed, with a proprietary process to separate one kind of plastic from another already in hand, Wellman could easily find itself moving not only into other plastics but also downstream into specialty products, as it did in carpet fibers.

So far the strategy has paid off spectacularly. Since 1985 alone, pro forma revenues have gone from \$207 million to \$261 million, pro forma profits from maybe \$11 million to \$24.9 million. With first-half profits up 52% on a 23% increase in sales, this year looks even better.

Wellman is doing so well that last year Duff and his partners decided to cash in and take the company public with a 5.6-million-share offering. "The company had come along faster than even we had projected," Duff readily concedes. Duff had already retired \$33.8 million of debt out of cash flow, and he used the \$68.5 million corporate proceeds of the initial public offering to repay the bulk of the high-cost debt that remained. Now, with only \$40 million of long-term debt still on the books, Duff worries Wellman may be getting underlever-

aged. "This year," he says, "we've had the largest capital program ever, and we're still going to be a large cash generator. It is a nice position to be in for a change."

So Wellman is finally a full-fledged public company. Prudential, Narragansett and Teachers Insurance sold out 2 million of their shares (acquired at \$1.57 a share) for \$20.50 a share when Wellman went public last year, doled out another 2.5 million shares into the open market in the time since then, for as much as \$38 a share, and last month disposed of the remaining 4.6 million shares in a secondary offering at around \$35 a share. In less than three years, then, the partners' \$14.7 million equity investment in Wellman yielded a pretax profit of something like \$250 million. Not bad at all.

Tom Duff and 13 other Wellman officers and directors stand to fare even better. They bought their stakes for under 19 cents a share, and that makes Tom Duff a multimillionaire. "It's all on paper," he says happily. Well, not quite. Over the past year, Duff has sold 221,000 of his original 648,000 shares for something like \$5.5 million. ■

Can you borrow yourself rich? Young Bill Stoecker seems to have done so.

Love those gullible bankers

By Ralph King Jr.

IMAGINE A MARCH afternoon, and 35,000 feet in the air somewhere over the Midwest Bill Stoecker is stretched out in his Gulfstream jet. He's the very picture of the young achiever on the go. En route to his getaway in Naples on Florida's platinum coast, he has just visited factories he owns in Indiana and Ohio. Sipping a Diet Coke, the 31-year-old financier tells a FORBES reporter about

his latest art purchase: \$170,000 for a Turner watercolor landscape.

Scarcely a decade ago, William J. Stoecker was a Chicago metal welder. He wore a face shield and bib overalls, and sparks flew all about him as he sealed joints at his family's small fence shop. Today Stoecker controls over 25 different manufacturing plants, mainly in the Midwest, and employs some 5,000 people.

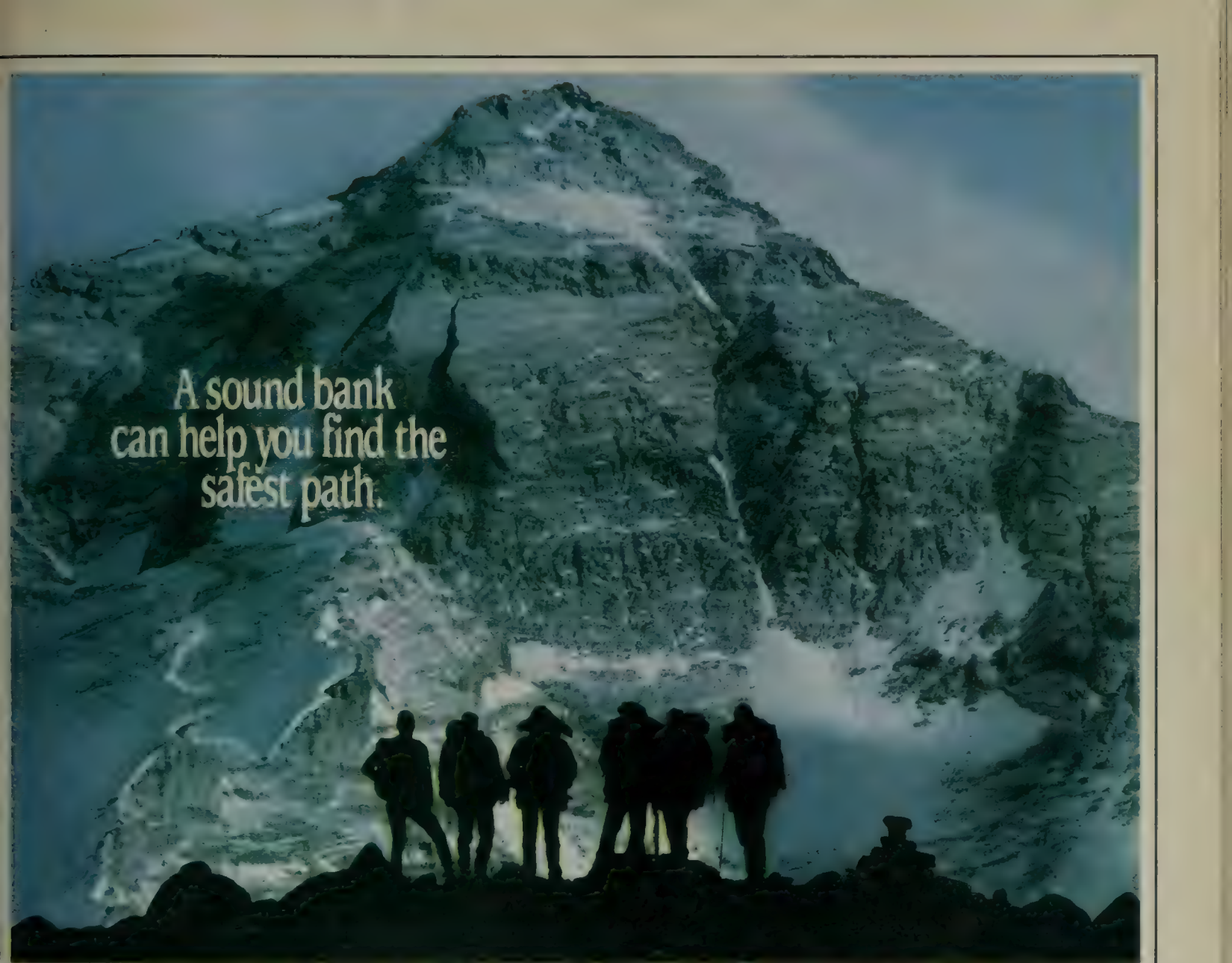
Another yuppie-entrepreneur-makes-good story? There's that, but

there's a twist here. The *Chicago Tribune* reported a year ago that Stoecker had a net worth exceeding \$250 million and belonged among The Forbes Four Hundred. The headline of its adoring profile: "The Oak Forest Whiz Whom FORBES Missed."

But note that Bill Stoecker still didn't make our Four Hundred (FORBES, Oct. 24). Yes, we looked into it. And we concluded that with Bill Stoecker there is less than meets the eye. Far from being a centimillionaire, Bill Stoecker may have several million or even no millions at all. We can't be sure. It depends on whose figures you believe.

Whether or not Stoecker is a good manager has not been demonstrated. One thing is clear: He has an enormous talent for persuading banks to lend him money. And the banks have been willing. The rate of new lending to the industrial heartland has tripled since last year and is running 75% faster than the national rate; loan officers have read about the resurgence of the Rust Belt. Stoecker got an early seat on this particular gravy train with the help of lenders such as Citicorp, Bankers Trust and NCNB.

No one can talk up Rust Belt revival quite like Bill Stoecker. "There's a rich little vein of manufacturing companies out here," says he. "We discov-



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Grabill Corp. Chairman William Stoecker

Richard Derk

Not every former welder has bank loans approaching \$400 million.

ered them before middle-market lending became all the rage. Now we look like geniuses."

Let's take a closer look at his "genius." Stoecker's operations are largely

grouped within a holding company, Grabill Corp., of which he is chairman and sole shareholder. Grabill owns a few dozen small firms that make everything from aluminum die

castings to souvenir French Foreign Legion caps. In August 1987 Stoecker broke into the big time when Grabill paid over \$150 million to buy most of Fruehauf's aerospace operations.

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Zz Yy Xx Ww Vv Uu Tt Ss Rr Qq Pp Oo Nn

The Fruehauf deal was financed largely with borrowed money—\$147.5 million from Citicorp. That deal ballooned Stoecker's total debt to \$290 million. Pretty impressive for a guy who was earning a blue-collar wage less than a decade ago.

Stoecker says he got his start in real estate, specifically by nailing down 100% or more financing from thrifts or banks on foreclosed Chicago residential homes, then rehabilitating the properties and either selling them or mortgaging them out at a profit. He says he also profited by dealing in land parcels around fast-growing towns in Illinois and Arizona.

Why not do the same thing in manufacturing, what with the Midwest economy flat on its back in the early 1980s? Use the leverage of borrowed money to buy undercapitalized companies, then fund their growth. In mid-1984 he took over Capitol Technologies, a South Bend, Ind. specialty machine maker, paying around \$5 million in cash.

Where did he get the \$5 million? He says he used profits from his real estate deals to pay for acquisitions. But evidence available to *FORBES* suggests he didn't make anything like that in real estate. He was a small-scale operator, and for only a brief period.

This much is clear: Within a year

Capitol Technologies' debt had jumped from around \$400,000 to \$5.5 million, while retained earnings of over \$2 million had shrunk to under \$350,000, according to people familiar with Grabill's internal documents.

Could it be that Grabill had actually bought the company with its own assets? *FORBES* asked Stoecker. Yes, he finally admitted through a spokesman. That loan had been secured by Capitol's assets. He had put virtually no equity into the deal. By the end of fiscal 1986, Capitol's debt had increased by another \$1.9 million, to \$7.4 million.

This kind of piling up of debt on debt works as long as the underlying assets and earning power keep growing. But nagging questions arose about how much Stoecker had actually improved the operations he had acquired. Grabill executives took pains to assure one of Capitol's biggest customers, General Motors, that there was little leverage in the deal and that Grabill had as much staying power as the previous owner. GM seems to have bought the assurances.

Stoecker was equally persuasive with AmeriTrust, the big Cleveland-based banking company. By the fall of 1985 he was deep in loan negotiations with AmeriTrust. Stoecker insisted that Grabill had virtually no debt and

that the operating performance of Grabill acquisitions had zoomed under his management. AmeriTrust agreed to lend Grabill \$15 million.

Were the operations really improving and the assets growing enough in value to support this kind of borrowing? Perhaps not. Knowledgeable sources say Grabill's internal records flatly contradict the company's assertions about debt levels and earnings gains, showing that its long- and short-term debt had already reached \$15 million by June 1985, and that retained earnings declined by \$2.5 million during the 1985 fiscal year and by another \$3.7 million in 1986.

In less than a year AmeriTrust got worried. Stoecker continually failed to hand over audited financial statements that he had promised to produce when the loan was made. AmeriTrust took steps to end the relationship as quickly as possible, but never mind. Stoecker by then was in talks with Charlotte-based NCNB anyway, and he eventually borrowed \$45 million. The money helped pay for more acquisitions, possibly including Midwest Stamping & Manufacturing and Allied Die Casting.

By mid-1987 Stoecker had asked the investment banking firm Salomon Brothers to raise his grandest sum of all, \$150 million, through a

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THE ZULUS AND ELECTRONIC WARFARE

In 1879 British a under Lord Chelmsford invaded Zululand in south Africa to claim it as Crown property. The campaign was expected to be over before the month was out.

But the Zulus proved to be no walkovers.

Among their many military talents was their use of deception. One trick was for an *impi* (the equivalent of a division) to condense its formations so the enemy could not count its regiments. Another was to have small, diversionary groups of soldiers drive herds of cattle around the countryside, raising dust and deceiving the enemy as to the location of the main Zulu force.

The Battle of Isandhlwana, Charles Fripp, 1885. The National Army Museum, London



Utilizing such deceptive tactics, the Zulus misled
Immsford into splitting his army and taking half of
a wild goose chase to the southeast.

Meanwhile, from the north, the main Zulu *impi*
10,000 attacked the remainder of the English force
located at the base camp at Isandhlwana. The sur-
prise was complete. The British were massacred. And
Immsford, hearing of the disaster, retreated to Natal.
The Zulus were applying a timeless principle of
warfare. Deception. A sin in everyday life, in time of
war a virtue. In the late 20th century it has become
essential.

Nowadays, the primary medium of this realm of
warfare is electronic. Planes, tanks, ships, helicopters
have electronic means of finding the enemy or pre-

venting him from finding them. Modern battle now,
more than ever, favors the side with the most effective
electronic technology.

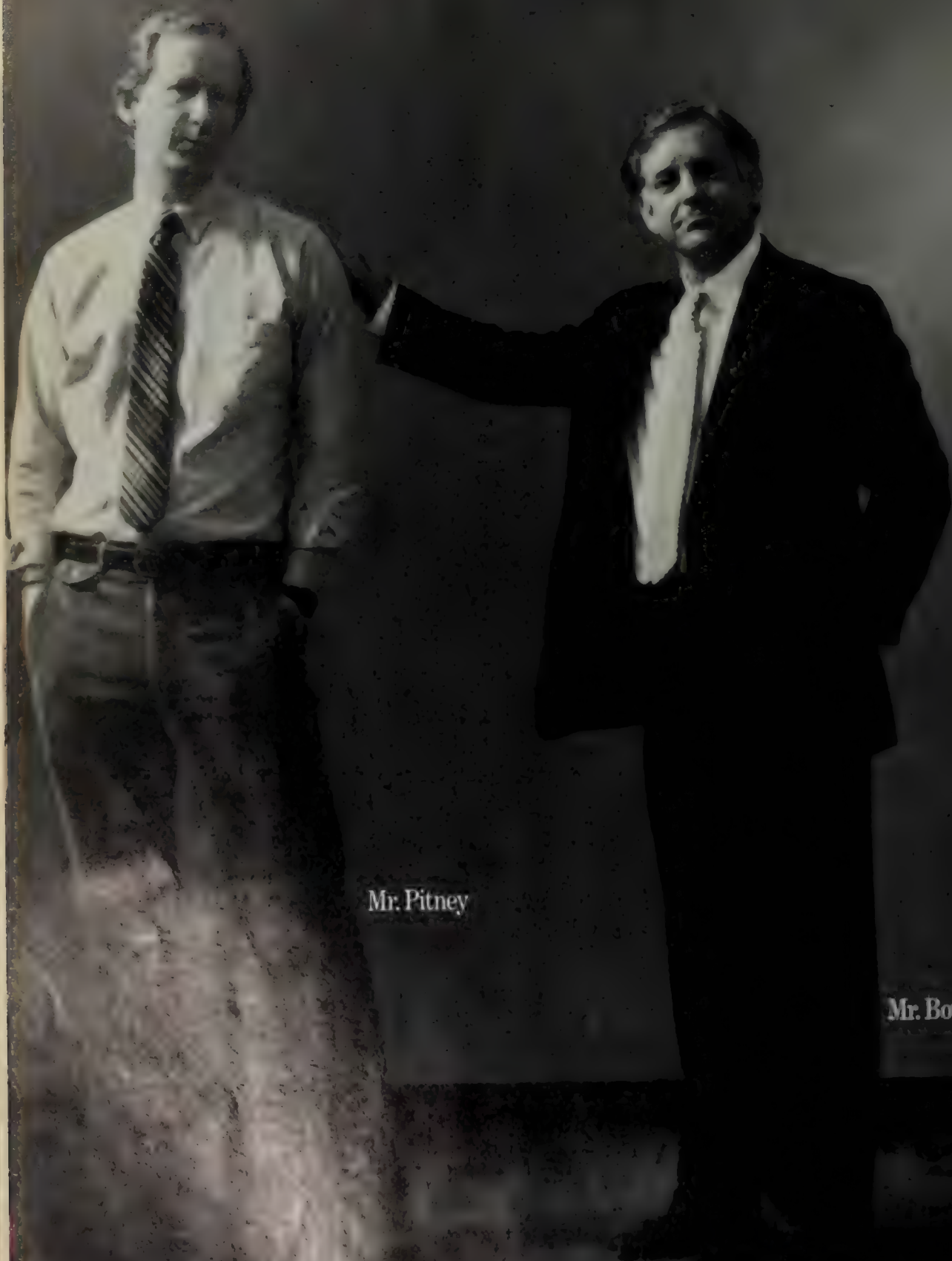
While the Zulus used deception to help them win
a battle, that tactic is now interwoven into every aspect
of defense. From the movement and intentions of vast
forces, down to individual encounters between aircraft
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But beyond this, electronic technology becomes
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loan syndication. With that money he planned to replace existing debt and use the rest for acquisitions.

Stoecker gave Salomon figures claiming that, based on his estimates of earnings, sales and assets, his companies would be worth \$219 million in the market. The numbers were a jumble. Some were audited, some not, some from accounting firms, some from his own staff.

Salomon's loan committee was not impressed. It asked Stoecker for more information and more solid numbers. Stoecker did not supply them—and with apparent good reason. *FORBES* has learned that Stoecker was greatly overstating the improvements he claims to have made in some of the companies he bought. Applying a multiple to those inflated gains, he came up with high valuation figures.

People with firsthand knowledge of Grabill's books provided *FORBES* with fiscal 1987 internal sales and profit data for five subsidiaries. Each was sharply lower than the figures Stoecker had supplied to Salomon. For example, Detroit Armor, a manufacturer of rifle ranges, booked sales of \$5.1 million and an operating loss, but in the figures submitted to Salomon that turned into \$10.7 million in sales and a \$960,000 operating

gain. In another example, Capitol Technologies internally reported fiscal 1986 revenues of \$11.65 million and an operating profit of \$2.6 million; in the figures given to Salomon Brothers, the revenues expanded to \$22.78 million and the profit to \$4.16 million. A Grabill spokesman says "standard accounting differences" are the reason for this but declined to elaborate further.

FORBES, however, estimates that with all its debt and with operations less successful than Stoecker claimed, Grabill was running a sizable negative cash flow in fiscal 1986. Says one insider of Grabill's accounting practices: "Bookkeepers would get entries and weren't told what they were for. They were told, 'Just book it.'"

Stoecker says fiscal 1988 figures (ending June 30) will once again show substantial gains overall, but he has no audited figures yet to prove it.

Skeptical of his numbers, Salomon wanted more information than Stoecker submitted. None was forthcoming. The negotiations stalled.

So what? Taking the figures that

Salomon had rejected as unconvincing, Stoecker handed them to Laventhol & Horwath, telling the big accounting firm to use the same figures he had handed Salomon as the basis for preparing a personal balance sheet for him. This mixture of audited and unaudited numbers showed a net worth for Stoecker in mid-1987 of \$332 million. Even though Salomon would not vouch for the figures, Laventhol accepted them as the basis for its estimates.

In turn, additional documents prepared by Laventhol impressed Boston-based Bank of New England, which recently had opened a Chicago lending office to make loans in the reviving Rust Belt. The Bank of New England lent Grabill \$150 million last summer, and required no collateral at all because of Grabill's apparent financial strength.

Stoecker used the money to retire certain corporate debt and to lighten his personal debt load. Soon after, Grabill snapped up Douglas Dynamics, a Milwaukee-based maker of snowplows, for \$100 million.

With the Fruehauf division and Douglas Dynamics, Stoecker is now running companies that he claims have revenues exceeding \$500 million. With debt approaching \$400 million, unless

these companies are immensely profitable—which is unlikely given the nature of the businesses—it is hard to see how Grabill can service that debt and still have much left over. Especially so since evidence suggests that Stoecker's companies don't always do as well as he says they do.

What's Stoecker's net worth? Who can tell, considering that his fortune is largely tied up in Grabill and its profits and sales figures vary widely from one document to the next. His realistic net worth is probably a mere fraction of what he claims.

Stoecker does profess to own companies outside Grabill that he says rang up another \$250 million in revenues in fiscal 1988. He rattled off some names for *FORBES* but wouldn't tell us where the companies were located or what they did for a living. We could locate none of them.

Bill Stoecker says of his mode of operation: "It's like a chess game. The more complex it is, the more I like it." And the more complex it becomes, the easier, apparently, to persuade banks to lend big money. ■



Stoecker in 1975

Did *FORBES* miss the "Oak Forest Whiz"?

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Election rhetoric aside, what is the economic bottom line of the Reagan Administration? Here's an analysis—in words and pictures—that shatters some myths and puts things in perspective.

Is the Reagan prosperity for real?

By Peter Brimelow with Lisa Scheer

THERE ARE lies, damned lies and statistics, said British Prime Minister Benjamin Disraeli. Many American voters would heartily endorse his sentiment in this year of electoral econobabble.

Fortunately, there are also charts. While it is not absolutely true that charts and cameras cannot lie, pictures can instantly tell a story that, if laid out in words and numbers, might cause the brain to balk.

In this helpful spirit, FORBES offers the following chart

portfolio. It is designed to answer the important question of how the American economy has performed during the Reagan era, and to shed light on various popular perceptions and myths. It does this by placing various economic issues in visual perspective—whether over time, compared with the overall economy, or by international standards.

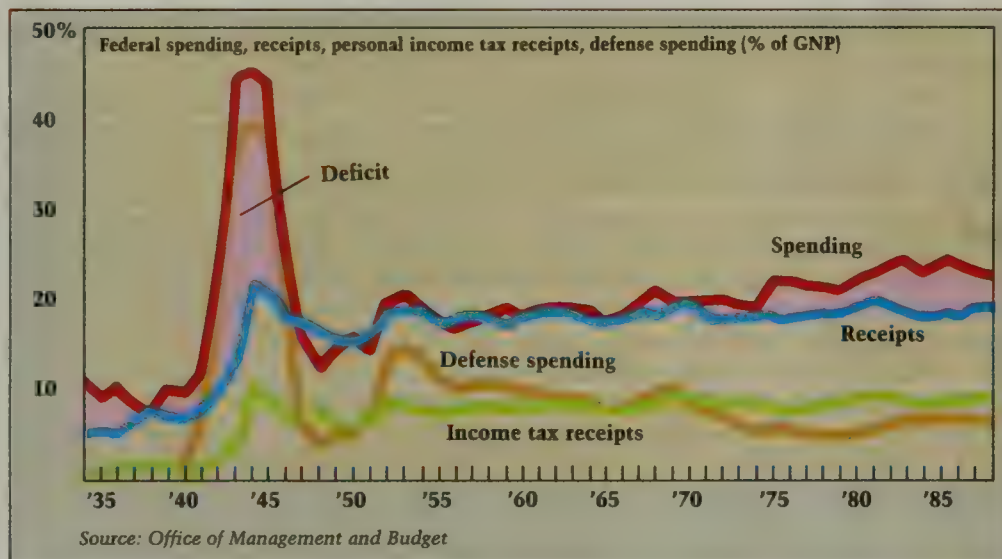
What these charts omit is perhaps equally significant. For example, the inflation and unemployment rates have played central roles in other election controversies. But not this year—no doubt because inflation and unemployment are low in terms of recent history.

Why did the federal deficit increase during the Reagan years?

The answer is instantly obvious from this chart: Tax revenues were not significantly cut—spending rose. Total federal government receipts were 19.4% of GNP in 1980, and they are expected to be 19.3% in 1988, toward the high end of their historic range. But federal spending reached a peacetime peak of 24.3% of GNP in the postrecession year of 1983 and will probably still be about 22.4% in 1988. Despite the alleged Stockman slashes, federal spending remains above its 1946-80 levels even though there's no Korean or Vietnam war going on. Reagan has not decisively reversed the drift to bigger federal government that emerged in the mid-1970s.

Note that despite all the hoopla about tax cuts, federal revenue from taxes on individual income is still undulating gracefully in its post-World War II range of 8% to 9% of GNP. Income tax revenue did briefly swell up to 9.6% of GNP in the pre-tax-cut year of 1981 because of "bracket creep"—unlegislated tax increases as inflation propelled millions into higher tax brackets without increasing their purchasing power. But this level of income tax revenues was exceptional, the highest since 1944.

(Not shown on this chart, some of the increased federal revenue has come from increased Social Security taxes and contributions. In 1988 these were running at an estimated 7% of GNP,



more than a percentage point above late 1970s levels and more than two points above 1960s levels. President Reagan's supply-side advisers would view this distribution of taxation as economically preferable since it avoids what they argue are the disincentive effects of a progressive income tax.)

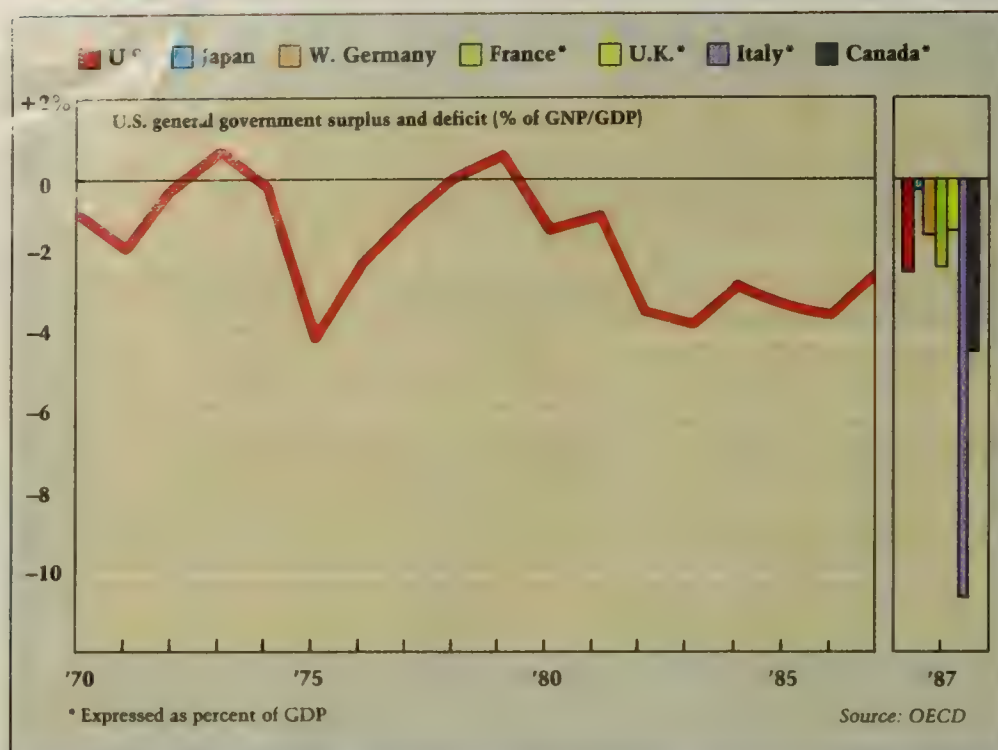
Defense spending, which includes pensions and benefits to retirees, is not the key factor in federal expenditure growth: It has indeed risen post-Carter as a percentage of GNP, but it remains far below its Eisenhower-Kennedy peacetime peaks.

So what about those Reagan deficits? Measured against GNP, they are broadly comparable to the deficits of

the Depression. But of course they are nowhere near as large relative to the federal budget, since the federal government was so much smaller in the 1930s. And neither set of deficits is anywhere close to those run during World War II, which peaked at 31.6% of GNP in 1943.

Placing the federal deficits in the context of overall GNP reduces them to scale. Thus in 1988, when the federal deficit-to-GNP ratio is expected to be 3.1%, GNP itself seems likely to grow about 4% and inflation is running at 4.1%. So, if federal spending were merely held constant in nominal terms for just over two years, the deficit could be wiped out.

Is the deficit problem?



The U.S. federal deficit alone is a misleading number. In many countries, central governments perform many functions, such as education, that in the U.S. are devolved to the state and local levels. To get a true picture of the deficit problem, all

these levels should be added together to produce the "general government" budget. Since state and local governments tend to run surpluses, the U.S. general government budget can be in balance overall even with a deficit at the federal level.

Which has happened as recently as 1978 (see chart). This was a sharp recovery from 1975, when the general government deficit of 4.1% of GNP was noticeably higher than the peak Reagan general government deficit of 3.8% in 1983. Even as far back as 1958—not shown—the U.S. general government deficit reached 2.8% before rebounding to a surplus in 1960.

And despite continual loud harumphs of disapproval from the other major industrialized countries, the U.S. general government deficit relative to GNP does not actually appear to be much out of line with their own performances—even if you're skeptical of Italian government statistics.

It's also instructive to look at these other countries over time (not shown on the chart). The Germans ran deficits above 3% of GNP in the mid-1970s and again in the early 1980s, reaching 5.7% of GNP in 1975. The Japanese had a similar experience in the late 1970s, peaking at 5.5% in 1978. The U.K. deficit was 3.9% in 1984. Canadian deficits exceeded 5% of GNP for five straight years from 1982, peaking at 7.0% in 1985.

And the Italian deficit reached 12.3% of GNP in 1985. But...

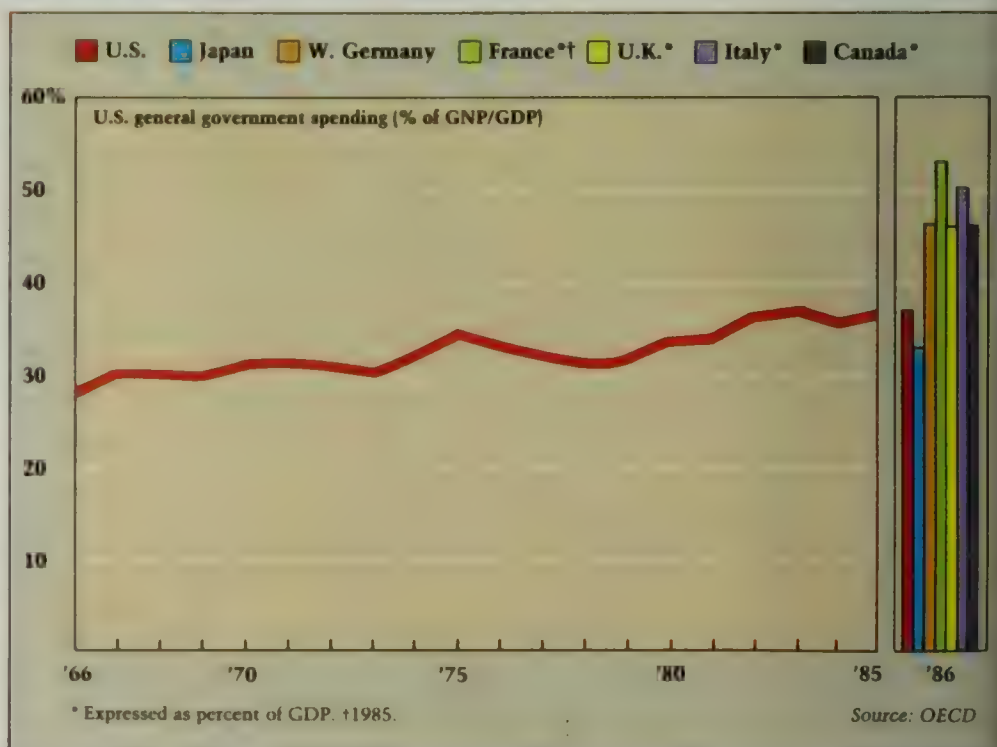
Has the government role in the U.S. economy been reduced?

This chart's message is stark: Far from being rolled back during the Reagan era, government spending appears to have consolidated its share of GNP at a point even higher than the gains it achieved in the Carter years. In 1986, the last year available, it amounted to a record 36.9%.

This is an important unreported story. There has been a very modest reduction in the federal government's share of GNP since the peak year of 1983, although it is still higher than in 1980. But this reduction has been more than counterbalanced by growth in state and local spending.

Of course, the total government role in the U.S. economy is still low compared to the situation in most other industrialized economies. In 1986 government in the welfare states of Western Europe took as much as 46.6% (Germany), to say nothing of Italy's 50.5%. But government in Japan takes significantly less than in the U.S. (33.1%).

It should perhaps be noted that even the formidable Margaret Thatcher hasn't made much headway in reducing the government share of GNP in the U.K. At 46.2% in 1986, it was

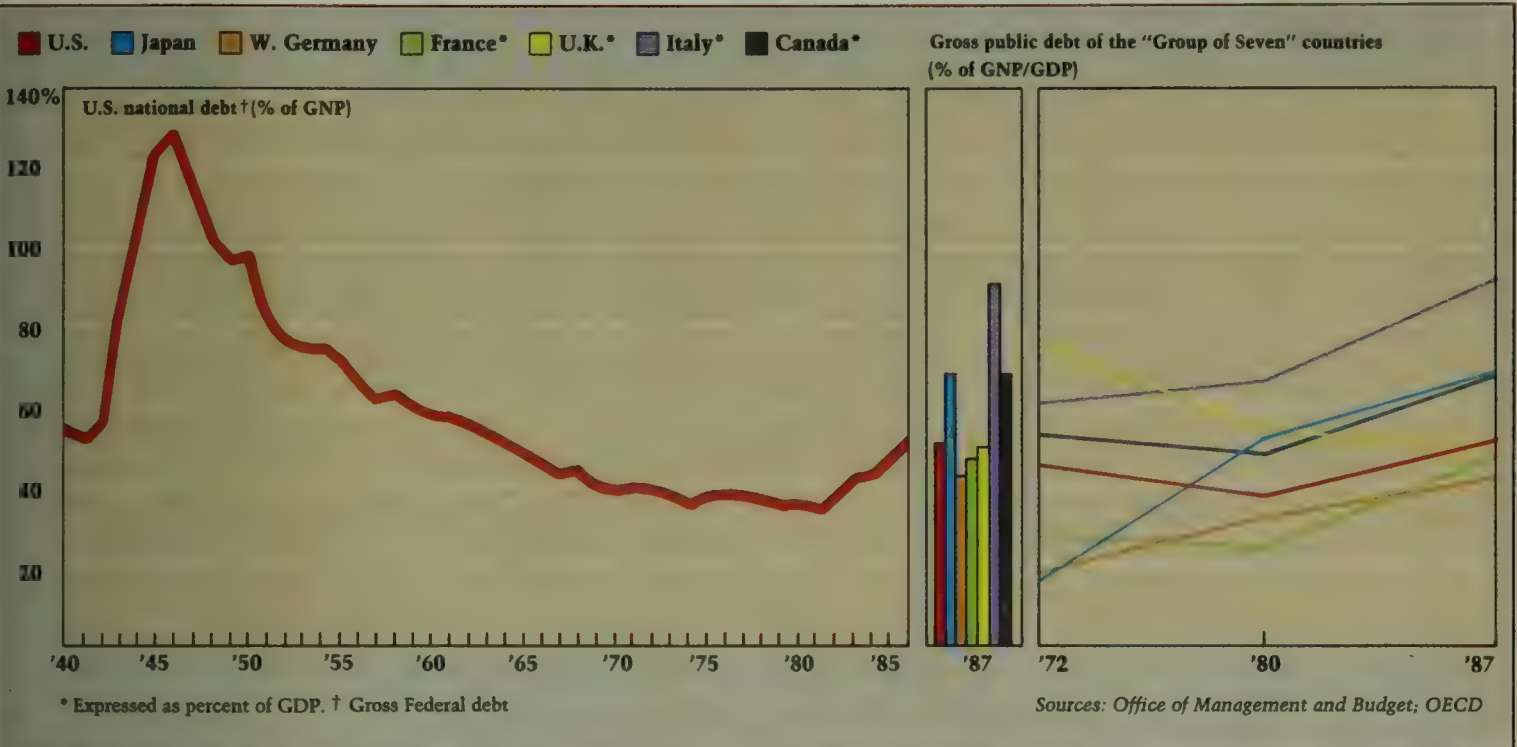


only slightly below its peak of 48%, which it reached in the high-unemployment year of 1984.

This chart makes something else clear: New spending programs in Washington would not be a mere mat-

ter of restoring cuts in government expenditure made during the Reagan era. They would boldly expand the government share of U.S. GNP into territory where no politician has been except in time of war.

How burdensome is the U.S. national debt?



Gross federal debt—the “national debt”—has more than doubled in the Reagan years, to a mind-boggling \$2.6 trillion.

Charting the national debt relative to GNP over time unboggles the mind to some extent. Because, whereas the debt ratio has risen, from 34.2% in 1980 to an estimated 54.9% in 1988, it's still only in the range experienced during the Kennedy Administration. And of course it's far lower than the levels reached during and immediately after World War II, when national debt peaked at 127.3% of GNP in 1946.

The fact is that national debt relative to GNP goes both up and down. It has already done this several times in U.S. history. The national debt ratio reached peaks of 26% in the 1870s, after the Civil War, and about 30% after World War I. Subsequently, it was reduced to lows of 2% in 1916 and 16% on the eve of the Depression.

And it should be noted that the steady decline in the national debt ratio after 1946 is not entirely an indicator of economic virtue. The ratio can be reduced in three principal ways: The federal government can

run surpluses; the economy can grow faster than federal government deficits—or inflation can reduce the real value of debt denominated in nominal terms. Increasingly after World War II, the third method was employed.

Maybe this will be a consolation if inflation returns.

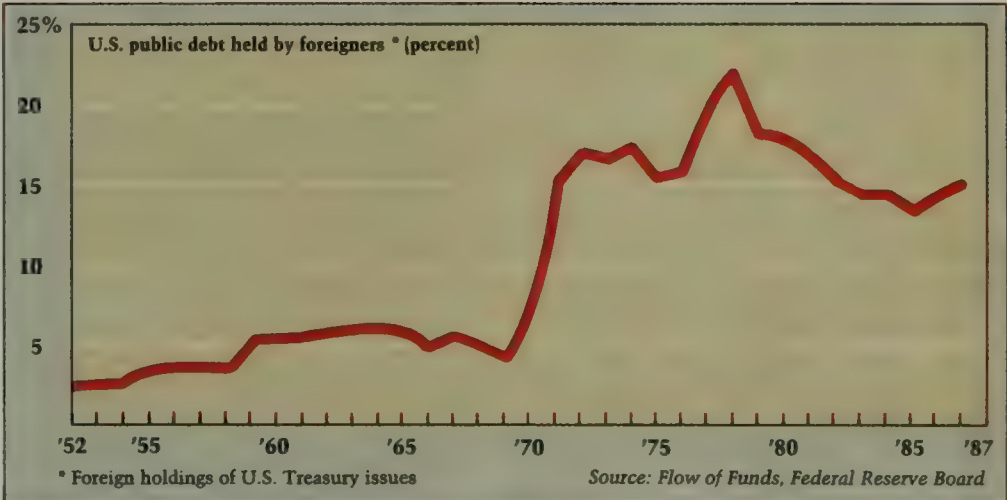
Despite the recent expansion of the U.S. national debt, the international comparison chart reveals it is still not particularly out of line with those of other major industrialized economies. Nor has its growth (see chart, above right) been exceptionally fast.

Is the Reagan prosperity just a matter of borrowing from foreigners?

The U.S. government, at least, has not financed itself in the Reagan years by unusual borrowing abroad. The proportion of the national debt held by foreigners is lower now than it was under President Carter.

The U.S. government is arguably in a uniquely strong position vis-à-vis foreign creditors: Its foreign debt is denominated in its own currency, so that it can always be inflated away. Still, for what it's worth, it appears that at least some of the governments of the other industrialized countries have financed themselves with foreign debt to about the same extent as the U.S. West Germany has 20.8% of its government debt held by foreigners; Canada some 14.7%.

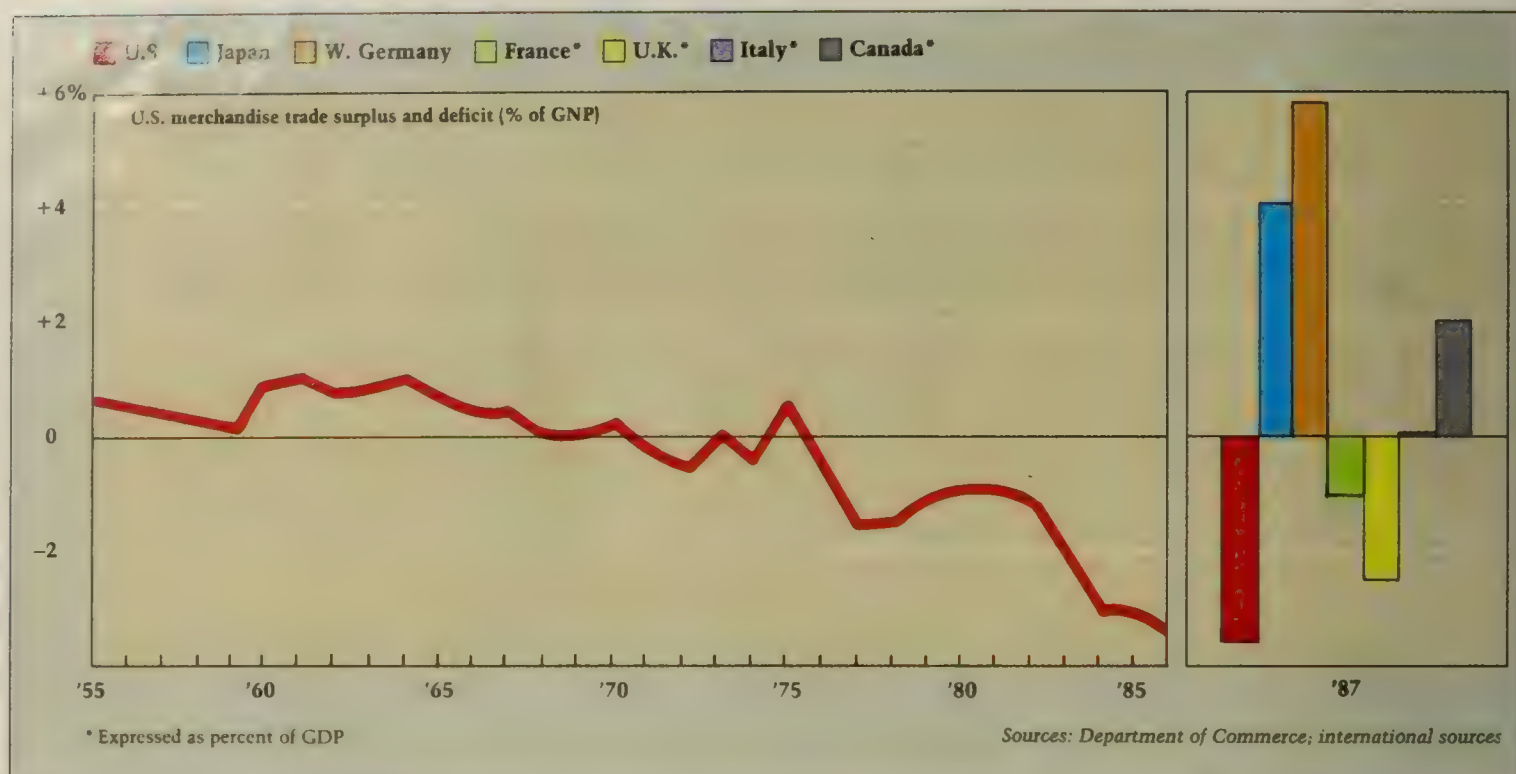
Foreign loans to the U.S. private sector (not shown) are the result of a market process, with the domestic borrower judging his ability to repay



and the foreign creditor taking the risk. By contrast, government obligations are assumed as the result of a political rather than an economic decision. Foreign loans to the U.S. private sector did rise to 4.48% of GNP

in 1986, up from 1.3% in 1980 and an acceleration of a rising trend stretching back to the 1960s. But foreign loans remain a small fraction of total U.S. private sector debt, which in 1987 amounted to 124% of GNP.

What about the trade deficit?



Because the world no longer has fixed exchange rates, worrying about the trade deficit appears at first to be rather paradoxical. After all, inflows, outflows and the floating exchange rate must equilibrate by definition. And central governments no longer have to be concerned that the reserves they needed to defend their currencies' value are being eroded.

Still, the trade deficit relative to GNP appears here by popular demand—the media have made a

mighty issue of it. And it does show a Reagan number that is actually out of line with U.S. post-World War II norms. The 1987 deficit was 3.6% of GNP; estimate for 1988, 2.9%.

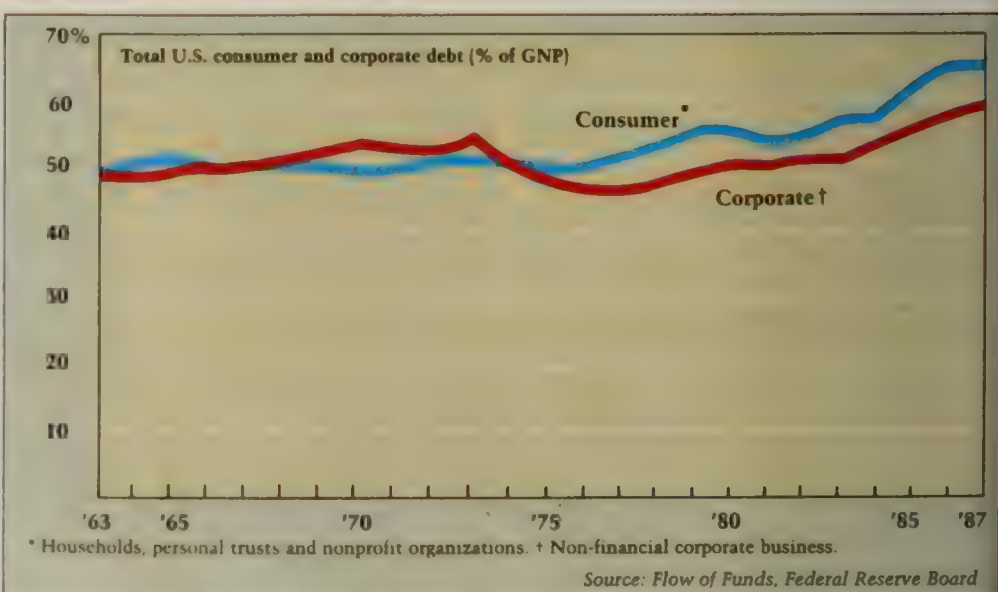
The U.S. has the largest trade deficit of the major industrialized countries, although booming Britain has also developed a substantial deficit, running at 2.5% of GNP in 1987. In other respects, however, international experience is comforting. It teaches that trade deficits come and go. Japan

regularly ran merchandise trade deficits from the end of WWII to 1963—at times up to 1% of GNP—before turning the trade balance positive and becoming the Japan we know and love today. South Korea has since followed a similar pattern. It may be that Americans have not had enough experience of what it feels like to be involved in international trade. Total U.S. merchandise trade was 14.7% of GNP in 1987, almost double the levels of 20 years earlier.

Okay, but what about private debt—consumer and corporate?

The number that has gotten most out of line in the Reagan years is debt. However, shown here relative to GNP as far back as Federal Reserve Board numbers go, the trend looks slightly less alarming. The debt build-up also seems to predate Reagan, beginning in the mid-1970s.

In principle, market forces should determine the appropriate level of debt for the U.S. economy. This is what happens for individual industries, whose levels of leverage vary widely and fluctuate over time. And some observers argue strongly that what is now going on in the U.S. economy overall is nothing to worry about. They say debt is not excessive relative to other measures, such as real assets, corporate equity and corporate cash flow, or when allowance is made for financial innovation—today's corporate debt today is "securitized," repackaged and sold in the



public marketplace, and hence is less of an open-ended threat to the issuer's financial health. Furthermore, Japanese and West German corporations

are said to be far more leveraged than their American counterparts.

Still, the debt question clearly merits further, calm, investigation.

Did Reagan slash marginal tax rates on individual income?

Cutting marginal tax rates—the rates levied on each additional dollar earned by a taxpayer—was the core of the Reagan program. And the chart shows that he achieved his goal. (State and local income taxes, of course, were not affected.)

But the chart also shows how sharply the marginal tax rates faced by Americans were in effect being raised automatically through bracket creep as inflation worsened in the 1970s. This year, after the Reagan reforms, a family of four with a median income (\$37,482) faces a marginal rate of 15%, the lowest in at least three decades. But the same family with twice the median income (\$74,964) is not so fortunate: After the Reagan tax cuts, this higher-income family will face a marginal rate of 28%—which gets them back only to the early 1970s.

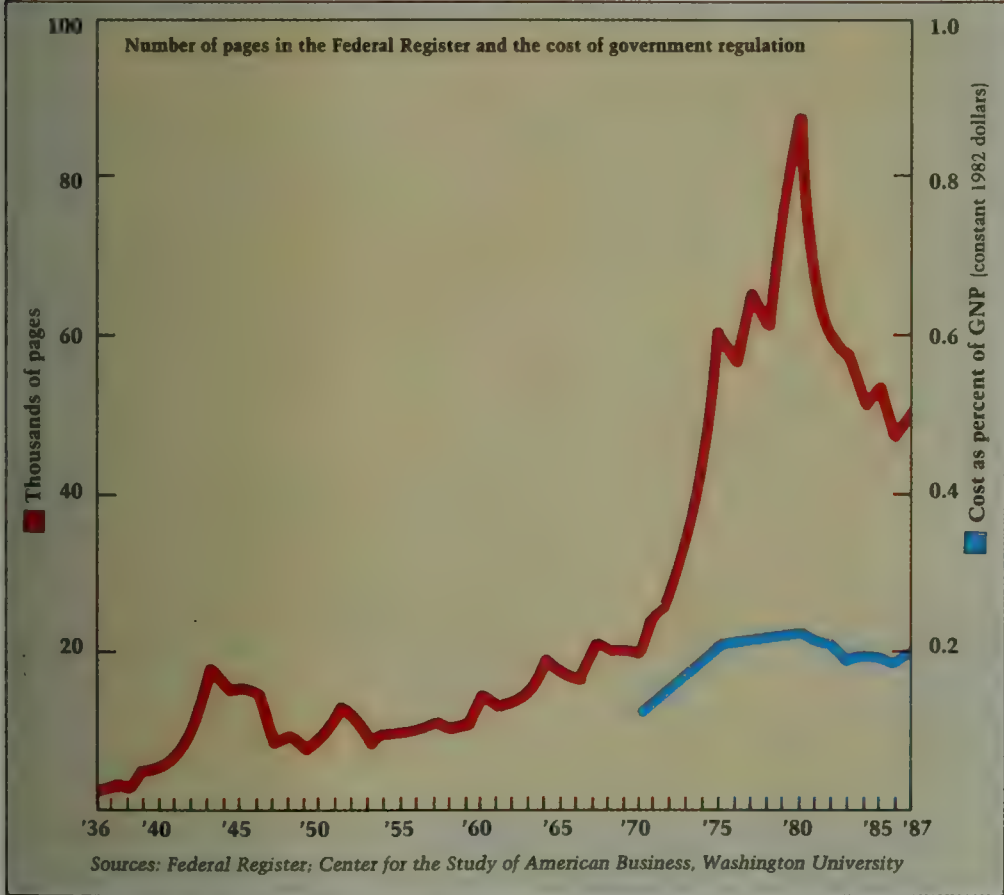
Note that the total amount of tax paid by these families—the average



tax on their income—is also affected by the elimination of many tax deductions. It may even have risen, one reason income tax receipts still com-

pose 8% to 9% of GNP. (See first chart.) However, at least bracket creep won't be coming back: Reagan also indexed the tax code against inflation.

Has the economy been sweepingly deregulated?



The extent and effectiveness of government regulation of the economy is of course inherently difficult to measure. But one accepted way is to count the number of pages in the Federal Register, which records all rules and notices issued by federal agencies. This is supposed to be a proxy for the intensity of regulatory activity from

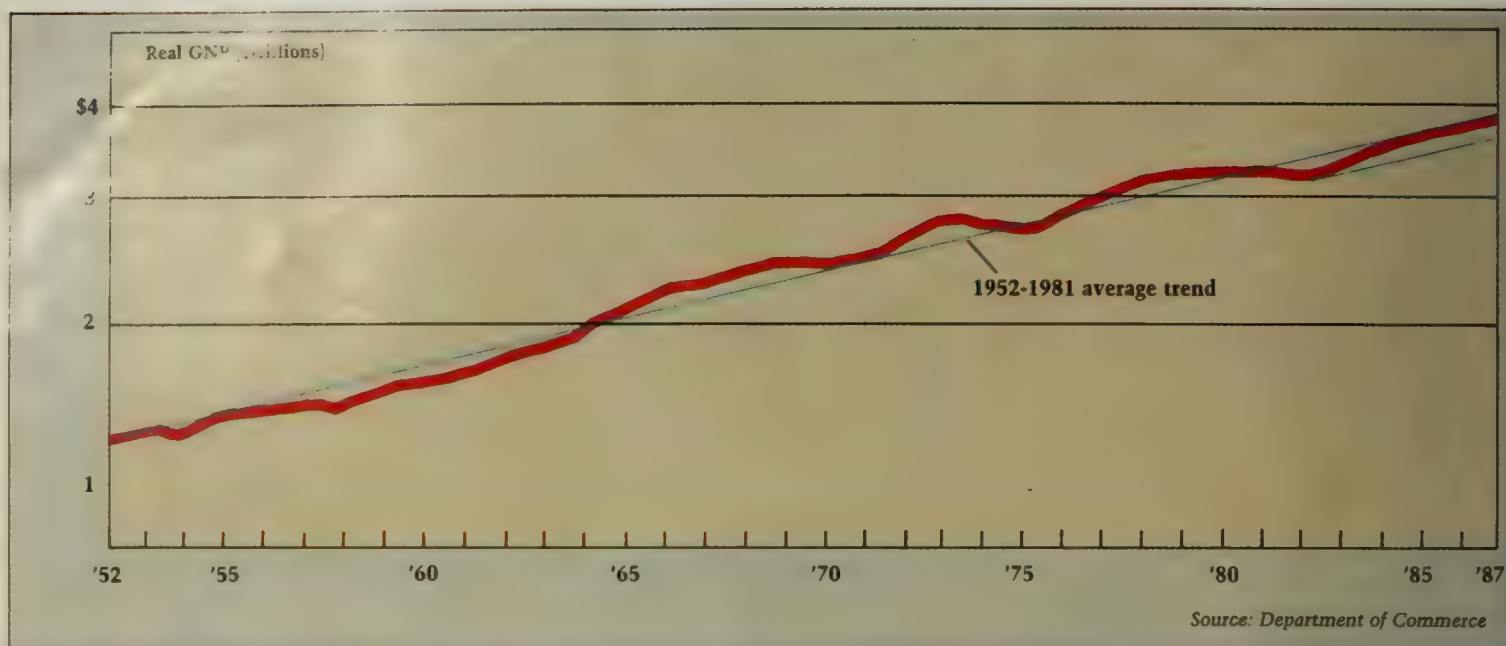
year to year. Clearly visible in this chart is the flurry of activity associated with World War II—and the tidal wave of regulation under Presidents Nixon, Ford and Carter in the 1970s. The Reagan years do seem to have brought an ebbing, although things have basically churned since 1984. But note

that, at least as measured by pages in the Federal Register, there appears to be about as much regulation going on in the economy as in 1975. Another approach, adopted by the Center for the Study of American Business, at Washington University in St. Louis, is to track the administrative costs of regulatory agencies. The theory is that, since the regulators are presumably not just sitting there, money spent to support them reflects regulatory impact in the economy as a whole. This measure shows an even smaller reduction in regulation. Relative to GNP, the rise in regulatory spending was halted and even reversed until 1983. After that, it kept pace with GNP growth, which is currently estimated at 4%.

In real terms—not shown—regulatory spending first decreased and then began to recover after 1983 at a rate comparable with the Carter years. The startling result: By 1987 Reagan Administration regulatory spending was higher than at the end of the Carter Administration. Regulatory staffing levels, also not shown, followed a similar path, although their recovery to Carter highs is not yet complete.

A popular book on Reagan Era deregulation described it as "the dismantling of America." On the evidence of this chart, America has survived. Or at least the federal regulatory apparatus has.

Is the Reagan economic recovery living on borrowed time?



The Reagan expansion has been of much advertised length. But it has only just repaired the damage of the 1982 recession. Between 1952 and 1981, the U.S. economy grew at an average rate of just under 3%. The rebound since the bottom of the 1982

recession has seen a faster-than-average pace of growth. This has finally managed to get the economy back up to the point where it would have been had the recession not occurred and the long-term trend continued.

Of course, the U.S. long-term

growth trend is in itself remarkable. And there may now be presumably fewer of the imbalances associated with excessive growth spurts. The economy can hardly regress to the mean when it is on the mean to begin with.

What's the economic bottom line on the Reagan years?

On the basis of these charts, it seems safe to conclude that the prosperity is not hollow—or at least not much more so than previous post-World War II expansions. The economic phenomena charted here are not radically out of line with both past experience and international comparisons—with the debatable exception of private-sector debt, which has little to do with government policy.

Whether the stagflation Reagan found on taking office was sufficiently serious to merit running Depression-level deficits is, perhaps, ultimately a matter of judgment. In Britain, Margaret Thatcher dealt with a similar situation without quite such heavy recourse to deficits (although they were closer to U.S. levels than is generally realized). In the American political system, without Mrs. Thatcher's total control of the legislative branch for five years before any election, this would probably have spelled suicide.

In retrospect, the Reagan Administration was a conservative revolution

in a very specific sense. It was more cautious, seen in perspective, than either friends or foes appreciated. Its achievements were not so much what it actually did, but what it prevented from happening.

In the final years of the Carter Administration, there were powerful trends at work in the economy, ranging from bracket creep to rising federal spending. During the Reagan Administration, these trends have to some extent been slowed, stopped and even—in the case of federal spending only recently—reversed.

In addition, of course, Reagan presided over a very strong expansion that, unlike the 1970s, has not been accompanied by rising inflation.

There was a price to all this. Reagan accepted a recession in 1982 and also the notable, if not unprecedented, developments outlined in the charts.

Any future President will have to decide if this price is worthwhile—and whether the trends Reagan opposed are to reverse or resume. ■



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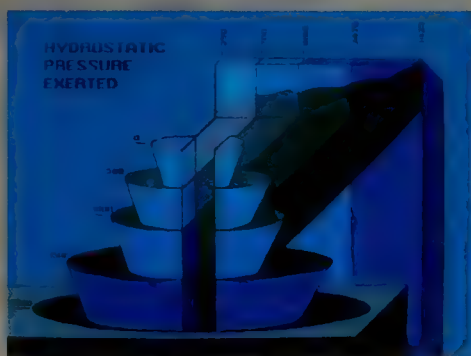
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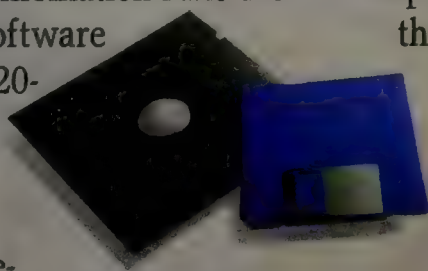
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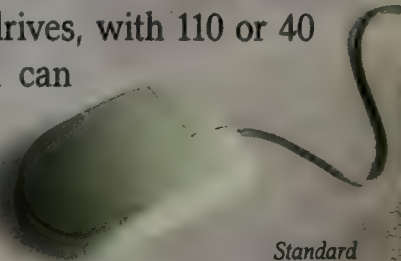
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It's better.

Americans are going to start saving more, says economist Edward Yardeni. They'll buy fewer VCRs and more bonds.

The case for a 5% Treasury and 5000 on the Dow

By Ruth Simon

Americans are profligate. We spend with no thought for tomorrow. Our low personal savings rate is down from 7.5% in 1981 to 3.7% currently, and if we didn't have the Japanese to finance our budget deficit, why, interest rates would be out of sight. That's the conventional view.

For a different view, listen to Edward Yardeni, 38, a Wall Street economist for the past 11 years and now chief economist for Prudential-Bache. Instead of drawing gloomy conclusions from the past, he looks to the future for brighter ones.

Yardeni's theory is that the clump of workers born between 1946 and 1964 will soon pass from spendthrift youth to (comparatively) frugal middle age. That change will create a bull market in financial assets as these converts to savings look for places to put their money. Rates on long-term Treasury bonds could drop to 5% from the current 9½% over the next five years, he says. That makes him a wild bull on bonds. But his reasoning, rooted in demographic trends, is pretty solid.

Yardeni: Baby boomers are a third of the population. They hit the economy in full force in the Seventies and the early Eighties. There were so many of them wanting houses and apartments that they drove up rents and home prices. They flooded [the job market] and pushed the unemployment rate up. It's pretty obvious they have had a

tendency to consume more sooner in their lives, to buy a house sooner in their lives than their parents.

You mean they will soon buy fewer VCRs and more bonds?

As people get older, they save more and they consume at a slower rate.



Prudential-Bache economist Edward Yardeni
Yuppie consumption index is flat.

That has to do with the fact they're having a lot of children. Children make you realize at some point that you have to put money away. And a lot of the baby boomers' pent-up demand for goods has probably been satiated over the last five years.

Give us some examples.

I came up with the yuppie consump-

tion index, including clothing, shoes and restaurant meals. And now, wouldn't you know, real spending in clothing and shoes and restaurant meals has been flat since the beginning of 1987.

Won't the reduced demand for housing hurt the economy?

To the extent that the demand for mortgage loans cools off, interest rates will come down. That means more money will be available at a lower rate to finance business plants and equipment.

Give us some numbers.

Personal savings was \$104 billion in 1987 and should be \$140 billion this year. In five years I would expect to see a savings rate of 10%. If you factor in that income is going to be growing, the amount of personal savings should be about \$480 billion in 1993.

Have you forgotten that a lot of our savings is being sucked up to finance the federal deficit?

I think Gramm-Rudman is working. If you exclude the Social Security surplus, the government's deficit in fiscal 1988 was about \$190 billion. By 1993 this non-Social Security deficit will be down to roughly \$90 billion.

As for Social Security, the actuaries project an \$86 billion Social Security surplus by 1993. The revenue stream is so large the [system] will run huge surpluses by the early 2000s.

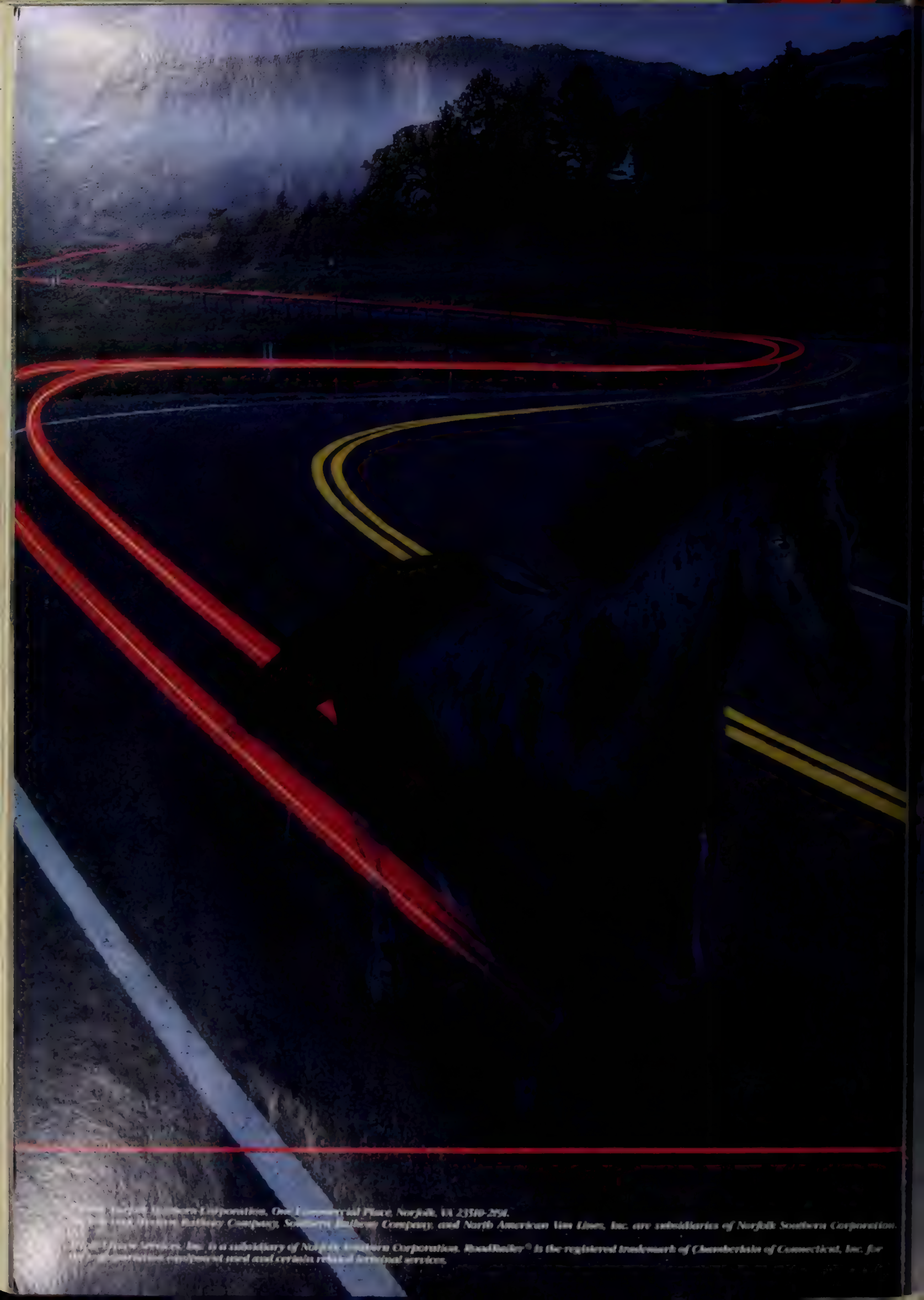
Okay, how does the investor position himself to take advantage of the increase in personal savings?

There are going to be more buyers than issuers of fixed-income securities. As the baby boomers get older and stash more money away in CDs and bonds, they're going to have this tremendous desire for income. I could see a frantic demand for high-yielding fixed income securities. I think financial assets will continue to beat most real assets. Thirty-year Treasury bonds should be down to 5% within the next five years. High-quality triple-A corporate bonds will probably yield 5½%.

It's much better to be in noncallable bonds like Treasuries because you want to be able to hold on to those good yields.

Stocks?

If we come anywhere near 5% on long bonds, I think you'll see 5000 on the Dow. ■



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Edited by Laura Saunders

Congress thought it closed the door on tax loopholes for mergers. Wall Street has pried open the windows.

The Campeau coup and the May maneuver



Brian Albat

IN THE CONTINUING WAR between Wall Street and Congress over taxes on asset shufflers, chalk up two for Wall Street. Canadian raider Robert Campeau has a new tax gimmick that should save him \$200 million or so on his Allied and Federated takeovers. And St. Louis-based May Department Stores will avoid as much as \$100 million tax on what is in effect the sale of half its shopping centers and real estate subsidiary.

Each firm has found a different, but apparently legal, way to cut capital gains tax on sales of subsidiaries. Both techniques will likely be widely copied because "nothing else is left," says Robert Willens, a tax expert at Shearson Lehman Hutton.

Three times—in its tax acts of 1982, 1986 and 1987—Congress attempted to plug loopholes that enabled corporations to defer or eliminate capital gains tax when they sell subsidiaries. Since sales of subs to reduce debt is a favorite device of takeover artists, the changes were blows to the takeover game. But once again, the dealmakers seem to have scored, at least until Congress convenes again.

Here's how the Campeau tax play works: In three separate but similar deals, Campeau has sold five subsidiaries formerly owned by Federated or Allied to three retailers. May Department Stores bought Filene's and Foley's for \$1.1 billion cash and a \$400 million note; R.H. Macy bought Bullock's and I. Magnin for \$636 million cash and a \$400 million note; and the British firm Marks & Spencer bought Brooks Brothers for \$300 million cash and a \$450 million note.

Campeau owes tax immediately on a portion of the capital gain in each sale, the portion being determined by the fraction of the sale price taken in cash. The rest of the profit, however, is taxable when the notes fall due in the late 1990s. That's because the notes, given by the buyer of the property, make the sale into an "installment sale," with taxes spread pro rata over the installments.

The longstanding logic with the installment sale rule is that you shouldn't have to pay tax until you have the cash to pay it with. It made sense over 60 years ago, when the installment sale rules went into the tax code. But it doesn't make sense in today's world of clever financiers. Why, what's to stop Campeau from borrowing against the note, thus effectively converting it into cash while postponing the tax?

With \$1.25 billion of notes in the three sales, Campeau has postponed the day of reckoning on perhaps \$

billion of capital gain. (The company isn't saying how much the gain is, but these stores have been part of Federated and Allied for a long time and presumably have very low costs for tax purposes.) At a combined federal and state tax rate of 40%, the tax deferred could easily be in the range of \$300 million to \$400 million. That's money Campeau will eventually owe the IRS but that for now he can use to help finance his deal.

A tax deferred is a tax reduced. Considering the time value of money, deferring \$300 million for a decade is about as good as cutting maybe \$200 million off the tax bill.

None of this would stick out in the general scheme of corporate taxation except that Campeau has already turned the \$1.25 billion of notes almost entirely into cash. For each note, he has borrowed substantially the same amount of money, at the same interest rate, for the same period, pledging the note as collateral. (In the May's and Macy's deals, he borrowed 88% of the face amount; in Marks & Spencer, 95%.) The combination of installment sale and side borrowing has the look and feel of a nearly all-cash sale of department stores. But in form it's a deferred sale.

Can the IRS object to the Campeau coup? Not likely. It could argue that monetizing the notes is a "disposition," as when a firm sells its installment receivables to a factor. But experts say that the IRS has lost nearly all relevant cases on this issue. Courts looking at the question have gotten wrapped up in the legal niceties and ignored the economic substance of the transaction. "We take comfort from the legal history," says Stephen Gordon of New York lawyers Cravath, Swaine & Moore, who put the deal together.

Ironically, Congress has only itself to blame for the Campeau ploy. Corporations couldn't do this until Congress passed last year's tax law. It revised a 1986 general bar on borrowing against installment notes so that it applied specifically to certain real estate deals.

Now enters the classic legal doctrine that goes by the slogan "The exception proves the rule." If prostitution on Sundays is strictly out-

lawed, then prostitution on Monday must be legal. "You don't read the law to see what you can't do, but what you can. And if you can't do this with real estate, then maybe you can do it with everything else," adds Shearson's Willens.

Other deals are sure to squeeze through the same loophole. Robert Maxwell's firm recently argued to Macmillan that it should sell him the prized Information Services division because he's willing to do a deal like Campeau's, enabling Macmillan to get a tax deferral. Beleaguered retailer and manufacturer Interco is trying to sell some assets the same way.

Now for the May maneuver. Either fearing a takeover or sensing a market top, May decided to sell a half interest

erty and used the cash to buy in its stock. May isn't volunteering what its tax cost for the property is, but the gain might well result in a \$100 million tax if the subsidiary were sold in a straightforward way.

May used three IRS-proof steps to accomplish the same end. Step One: May and PruSimon form a 50/50 partnership. May contributes its real estate, worth \$550 million, and PruSimon tosses in \$550 million.

Step Two: May tenders for about \$550 million worth of its publicly held stock. Step Three, which is yet to come: May sells the stock to the partnership for about \$550 million.

When the dust clears, May has cut its ownership in the real estate sub by \$275 million and has retired \$275 million of stock. That's because half of the partnership's \$550 million stock position effectively belongs to May—that is, treasury shares.

Brian Aijhar

From the point of view of Prudential and Simon, the deal is a little messier. They've spent \$550 million to acquire (a) \$275 million worth of real estate and (b) \$275 million of stock in a department store chain.

A final but very important fillip is that May will be able to deconsolidate the real estate sub in its shareholder reports. A new accounting rule requires firms to consolidate all majority-owned subsidiaries on their public books by the end of 1988, something that firms with debt-heavy real estate, insurance or finance subsidiaries find

very distasteful. Some of these firms are going to be looking closely at the May maneuver.

Chances are, these two new tactics will further boost the already booming merger business. But with one important difference: Other recent merger tax tricks, particularly so-called mirror liquidations (*Forbes*, Dec. 15, 1986), favored raiders. But the Campeau coup can be used equally well by raiders and targets, and the May maneuver favors targets.

It's a good bet Congress will crack down on one or both next session. Meanwhile, the dealmakers and their lawyers will whoop it up while they can—before they have to look for new loopholes in the next loophole-closing law.—L.S.



in its prized shopping center development subsidiary for \$275 million and use the cash to retire \$275 million of its stock. The buyer is PruSimon, a joint venture of Prudential Insurance and developer Melvin Simon.

In the old days the easy way to do this deal would have been for PruSimon to buy \$275 million worth of May stock, then trade it in for a half interest in the real estate sub. Esmark used this straightforward technique to escape \$150 million of tax on its 1980 sale of Vickers Energy to Mobil. Then Congress outlawed the technique in 1982.

Now if a corporation disposes of appreciated property in a stock trade-in, it owes corporate capital gains taxes, the same as if it had sold the prop-

The Swiss do well with \$10,000 watches. Can Leica's new Swiss owners do as well with \$4,000 cameras?

New focus at Leica

By Peter Fuhrman

I'M ACTUALLY VERY GLAD that within Leica so much is organized badly," says Bruno Frey, who joined Leica GmbH as its president 18 months ago. "If the organization were perfect, and we were losing all this money, I'd probably close it down."

Everywhere Frey looks, the venerable maker of 35mm cameras is hemorrhaging. Leica produces only 20,000 cameras a year, but is having trouble selling even that number. By comparison, Japan's Minolta will sell upwards of 2.5 million cameras this year.

Fewer than 8% of the 5,000 camera dealers in the U.S. now carry Leica. But even among those that do, few shops employ the skilled salesmen needed to explain the merits of a camera that retails for between \$3,200 and \$4,000. Since peaking in 1985, Leica's sales in the U.S. have dropped by half in dollar terms—far worse in unit volume terms—to just over \$4 million in 1987.

In a world that values premium products almost regardless of price, Leica's fall is puzzling. The original Leica camera was the serendipitous invention of a German optical engi-

neer, Oskar Barnack, who discovered that he could use 35mm movie film to produce high-quality photographs. In 1925 Barnack's employer, a leading German optical company, Ernst Leitz GmbH, introduced its first Leica camera at the Leipzig trade fair. Within a decade, the rugged 35mm hand-held Leica had replaced the bulky single-shot box cameras that were the descendants of cameras first lugged across the battlefields of the American Civil War. Leitz promoted the cameras skillfully, putting them in the hands of such photographers as Margaret Bourke White and Henri Cartier-Bresson, and adventurers including Admiral Richard Byrd and Charles Lindbergh.

But it's an old story. You get cocky and the first thing you know someone outflanks you. In the late 1950s Japanese manufacturers copied the Leitz technique for focusing directly through the lens and began selling single-lens-reflex cameras that were far simpler to use than the Leica. And much cheaper.

More recently, the Japanese have scored a great success with auto-focus cameras, another piece of camera technology first invented but never commercially developed by Leica.

"Leitz just gave up the market to the Japanese," says Frey. "Leica hasn't had a strategy attuned to the

Koni Nordmann/Contax



*Leica president, with one day's factory output
A product that's fallen on hard times.*

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Collectible and affordable

Leica cameras have become collector's items—even fairly recent models. James L. Lager, Leica specialist at Ken Hansen Photographic Inc. in New York City, says that the 1984 M6 model initially sold for \$1,200. Today that same camera sells used for around \$2,100.

Among the most prized Leicas are the first 30 Leica null-series cameras, clearly numbered on the top of the body from 100 to 130, that were first produced in 1923. Only 15 are known to still exist. One of them was sold in the last year to an unidentified Japanese collector for a price believed to be around \$70,000.

After the original 30, the next most valuable Leica is one of the A Anastigmats numbered from 131 to 250 or 300 (the exact figure isn't known). Prices begin somewhere around \$10,000 and, depending on the camera's condition, can go as high as \$25,000 in the current market.

Then there's the A Luxus model, gold plated with lizard-skin cover. Produced circa 1928-31, these would run anywhere from about \$16,000 to \$25,000. There were only 95 made.

Between 1926 and 1930, some 1,500 Model B or Compur Leicas were made. Collectors currently pay up to \$7,000 for these. Before the Second World War, the Leitz factory produced the Leica 250 Reporter, so named because it could take 250 pictures on 33 feet of film. Fewer than 1,000 of these were made, a few with



A 1913 Leica prototype
Bargain hunters, beware.

an extremely rare electric motor. Even without the motor, the Reporter 250 goes for as much as \$8,500.

Another interesting model was the Leica 72, produced primarily by Ernst Leitz Canada Ltd. in 1954-55 to use the half-frame format: The film counter goes to 75, and 72 exposures are produced on a 36 exposure roll. Approximate price range today: \$8,000 to \$14,000.

What of the more typical Leicas, many of them brought back from the big Frankfurt PX to the U.S. as West Germany rebuilt after the war? They remain relative bargains. S. Willis Wright, who produces TV commercials for Young & Rubicam and is a spokesman for the Leica Historical Society of America, notes that between 1950 and 1956 Leica produced some 21,000 copies of its popular Leica IIIf model (numbered 525,001 through 837,720). The IIIf, says Wright, was used by Henri Cartier-Bresson, yet "good to excellent IIIfs can range from \$175 to \$300 on today's market." The cameras will still work beautifully, although amateurs brought up with Japanese cameras should remember that most of the earlier Leicas did not have built-in light meters.

As with any collectible, the Leica market is thin and some dealers are sharp, so watch out. An excellent source of information is *Vuefinder* magazine, published by the Leica Historical Society of America (P.O. Box B; Dayton, Ohio 45405).—Vicki Contavespi

market." Even today Leica's most popular camera, the M6, retailing at around \$3,800 with a lens, is virtually identical to a model first introduced in 1954.

By 1970 Leica was no longer profitable. Unable to pass along the full cost of the handcrafted cameras and lenses in retail prices, Leica management subsidized the cameras with profits earned from steady sales of Leitz microscopes and surveying equipment. In 1986, 12 years after taking a majority shareholding in Leitz, a Swiss optical company, Wild Heerbrugg AG, bought the remaining equity from surviving members of the Leitz family. In January 1988 Leica, the loss-making Swiss group's weakest link, was turned into a fully independent division. Unless Frey can turn Leica around, the \$66 million (sales) camera company will almost certainly be sold again. Says the hardheaded Frey: "If we can't be profitable selling a camera at such high prices, then we shouldn't be in business."

Frey is busy correcting mistakes. In the 1970s Leitz tried to lower costs by shifting over 50% of its production to factories in Canada and Portugal, where labor costs are up to one-third cheaper than in Germany. But there

were persistent problems with the quality of the non-German products. Leica now sits uneasily on a \$1.5 million backlog in orders for its M6 camera. It has been slow in filling the orders because too few of the Canadian-made lenses get passing grades from Leica's quality controllers in Germany.

The Portuguese move backfired when some customers balked at paying thousands of dollars for a camera stamped "Made in Portugal." Winces Frey: "There was this arrogant belief that it was enough just to have the Leica name on the camera." In July Frey began switching much of the lens production and camera assembly back to the Leica factory in the hilltop village of Solms, West Germany, despite the additional expense.

It is touch and go whether the new effort will succeed. With current low volume, Leica can't make money even at today's high prices. And unless it makes money, Leica cannot afford the aggressive advertising needed to build volume. One U.S. dealer notes that in the *National Geographic* magazine's centenary issue, as many as half the photographs reproduced had been made with Leica cameras. Yet Leica, says the dealer, shaking his

head, failed to advertise in the issue.

As a fallback, Frey is considering an expansion of Leica's small-scale commercial partnership with Japan's Minolta. One possibility: affixing the Leica name to a less expensive camera made in Japan.

But Frey's best hope is the high-quality product itself. Older Leicas are becoming collectors' items (see box, above). And new Leicas are still widely used and admired by professional photographers and well-heeled amateurs who appreciate the crisp and sharp images captured by the Leica lens.

Burkhard Kramer, Leica's newly installed vice president of global marketing, says: "Leica suffers from a typical European problem. The company is too proud of its history and forgets all about the present and the future."

The fact is that in the age of marketing, Leica forgot about marketing and hoped its name would shout for itself. "Leica," says Woody Blackburn, a star salesman at Cal's Cameras in Costa Mesa, Calif., which accounted for over 5% of Leica's total sales in the U.S. last year, "is way better at making cameras than selling them." ■



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Laura Cornell

First came Seconal, then Miltown and Valium. Now two more drugs are stirring up controversy in . . .

The mellow market

By Richard Greene

HOFFMANN-LAROCHE'S tranquilizer Valium, for years the bestselling prescription drug in America, has steadily lost sales throughout the 1980s and now ranks a mere 19th in the prescription drug hit parade. Are people learning how to mellow out more naturally? No. They're simply turning to new tranquilizing drugs from Upjohn and Bristol-Myers.

Both Bristol-Myers (1987 sales, \$5.4 billion) and Upjohn (\$2.5 billion) are gaining market share rapidly with their drugs, and Wall Street analysts are eagerly talking up the appeal the new drugs have for the 11% or so of Americans who use tranquilizing drugs under a physician's care.

But before you rush out to buy stock in these companies, you should know some facts that neither Upjohn nor Bristol-Myers are very happy about: One of their products (Xanax) can have severe side effects, the other (Buspar) is so slow-acting and completely without the distinctive side effects that users expect of tranquilizers that many don't think it's worth the trouble to take.

Right now these drugs are selling like hotcakes. Upjohn's Xanax, introduced in 1981, leads the field, with an estimated \$400 million in sales worldwide in 1988. Bristol-Myers' Buspar, introduced in the U.S. less than two years ago, is likely to rack up

\$100 million in 1988 world sales

Moreover, the two drugs are of great importance to their manufacturers' financial futures. Buspar accounts for only a fraction of Bristol-Myers' total revenues, but it is the firm's fastest-selling new drug and is widely viewed by analysts as a crucial test of the company's ability to compete in the pharmaceutical market.

Xanax, meanwhile, is already Upjohn's single biggest seller, accounting for an estimated 16% of 1988 revenues. Says Ronald Nordmann, a drug industry analyst with PaineWebber, "Right now people are buying Upjohn primarily for Rogaine, its male pattern baldness drug. But I believe Xanax will be a bigger seller than Rogaine well into the 1990s."

As market leader, Xanax has been getting plenty of attention. Beyond Wall Street, however, Xanax' reviews have been decidedly mixed. On the plus side, it turns out that Xanax, unlike Valium, can be used as an anti-depression as well as an antianxiety medication. Moreover, Xanax is proving successful in treating patients suffering from a form of extreme anxiety known as panic disorder. Victims can literally become incapacitated by terrorizing fear for periods lasting from minutes to more than an hour.

But Xanax also has many of the negative side effects that have helped give Valium a bad name. In January, Britain's Royal College of Psychiatrists issued a statement questioning

the wisdom of prescribing drugs that, like Xanax, belong to a chemical group called benzodiazepines. Research links these drugs with everything from highway fatalities to hip fractures in the elderly.

Some scientists even assert that Xanax is potentially one of the most dangerous drugs on the market. A report released at the American Psychiatric Association annual meeting in May claimed that Xanax can cause powerful withdrawal symptoms, including severe convulsions. As a result, the researchers argued that dosage should "be limited to 1 milligram a day, which is less than the approved dosage." Even Upjohn itself publishes a "warning" about possible seizures resulting from withdrawal.

"When Xanax came out, it was a new drug, without a negative track record, so people started using it," says Dr. Norman Sussman, a New York psychiatrist and drug researcher. "But if it follows the same route as Valium, there will be a backlash."

In theory, the main beneficiary of Xanax' worsening reputation should be Bristol-Myers' Buspar, which is both nonaddictive and causes no withdrawal convulsions. Nor does Buspar cause a mood-altering sense of euphoria or sedate the user. Thus it is safe to take even while driving. Unlike most other tranquilizers, Buspar can even be safely taken while drinking alcohol.

Unfortunately, all too many tranquilizer users actually like the mind-fuzzing side effects of drugs like Xanax. As a result, Buspar's market is already turning out to be primarily first-time users—so-called virgins in the tranquilizer trade. "We don't recommend Buspar for someone who has had a lot of experience with benzodiazepines," says a Bristol-Myers official. "We're hearing that nine out of ten times those patients aren't going to be very pleased with Buspar."

In short, here are two drugs that offered great initial promise—promise that has now begun increasingly to turn to uncertainty and even disappointment. Apparently the world will have to wait a bit longer still for the problem-free tranquilizer. ■

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Numbers Game

The electric power industry thought it had a way to ease the burden of nuclear plant losses without raising rates. Then along came the accountants. Result...

Crib death

By Penelope Wang

RECOVERING THE BILLIONS spent on nuclear power plants has been one of the utility industry's biggest headaches of the last ten years. So the industry has been closely following a restructuring plan by Public Service of New Mexico designed to help that troubled utility get back at least some of the money it has not yet recovered from its nuclear investments.

Public Service's plan: to split in two. One part—a state and federally regulated distribution company—would buy fixed amounts of electricity, at regulated prices, from the other part, a generating company regulated only by the feds. The generating company would sell at free-market prices whatever excess electricity it could produce after supplying the distribution company's needs.

The idea is a good one but the Financial Accounting Standards Board seems to have delivered it a death blow. Specifically, the FASB is recommending that once a utility is no longer regulated it must restate its balance sheet to look as if it had never been regulated in the first place. For Public Service of New Mexico, the result would be a \$150 million writedown that

would wipe out retained earnings and cause it to suspend dividend payments. No wonder Public Service withdrew its restructuring plan in August.

Traditionally, rate-regulated companies get to report the costs of financing construction as "assets," on the theory that state regulators will let them recover those costs through

future rate hikes. But if a company deregulates, it can no longer count on recovering those costs and should write them off as current expenses. Says Rick Petersen, project manager at FASB: "If you report like any other company, your books should look like any other company's." FASB may put the ruling into effect by January.

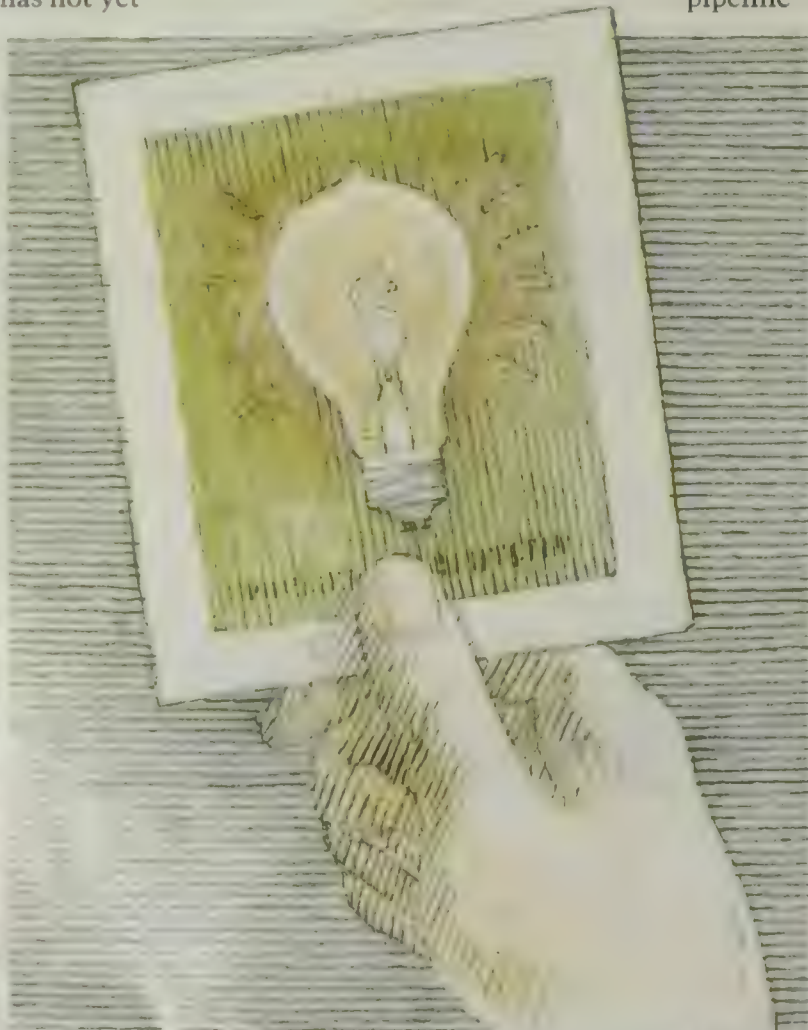
Yet as Paul Bjorn, partner at Price Waterhouse, points out, costs incurred under regulation reflect the economic circumstances at the time the money is spent. If those circumstances change, then the company should decide to what degree the earning power of the assets has been impaired, if at all, and adjust the balance sheet accordingly. Says Bjorn, "A change from regulatory accounting does not in itself economically impair fixed assets. Why should a company write down an asset whose value will be recovered in future cash flow?"

The proposal could be a big financial blow to many companies, especially utilities that have not yet recovered the costs of building nuclear plants. Big losers could include Commonwealth Edison, Philadelphia Electric and Pacific Gas & Electric. Gas pipeline operators, and local telephone companies considering deregulating might have to write down some assets.

"The FASB proposal," says Edward Wallace, a partner at Coopers & Lybrand, "is theoretically consistent but unreasonable in practice."

That's putting it mildly. Consistent accounting rules are desirable. But their usefulness lies not in meeting some formalistic test but in effectively guiding the process of deregulation. In this case—as in many others—the accounting rules seem to hamper rather than facilitate the process.

An alternative would be for the FASB to require utilities to review their assets when they deregulate. Then, if necessary, they can write off assets that have become impaired by deregulation. After all, that's what managers of nonregulated companies do all the time. ■



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A recent federal appeals court decision allows foreign governments to snoop through U.S. bank records of foreign nationals—looking for virtually anything they want. A good idea?

Fishing expedition

By Deirdre Fanning

IN 1985 THE GOVERNMENT of Trinidad and Tobago, suspecting a currency exchange law scam, asked the U.S. Justice Department to subpoena the Miami bank records of a wealthy Trinidadian named Joseph Azar. Because there was no official legal proceeding pending against Azar, he refused to hand over his records. His reasoning? When similar cases had come before federal judges elsewhere, they had deemed the existence of a pending legal proceeding in a foreign country to be a vital precondition to the release of any records to a foreign government.

But the U.S. Justice Department, eager to curry favor with the Trinidadian government, went to court for an enforcement order anyway—and surprisingly enough, got what it wanted. A Miami federal judge decided, in effect, that the other federal district judges had it all wrong: the mere prospect of a proceeding was enough to justify release of the documents. Azar appealed to the Eleventh Circuit Court of Appeals and once again he lost.

Now the U.S. Supreme Court is being asked to clear up the conflict, and common sense clearly favors Azar. America is rightly

viewed as the ultimate haven of people fleeing oppression around the world. But if the appellate ruling against Azar is allowed to stand, financial privacy can no longer be taken for granted by foreigners who bring their money here.

Sure, there is a certain amount of tainted money being laundered through U.S. banks by foreign crooks and drug dealers. But U.S. banks also hold the savings and investments of legitimate businessmen around the world, many of whom strongly oppose the corruption and officially condoned drug trafficking that goes on in

their own countries. Unless Azar's ruling is overturned, those corrupt governments could in effect be empowered to use the U.S. courts to hunt down and harass their political enemies by conducting fishing expeditions through their bank records right here in the U.S.

At the heart of the problem is a century-old federal statute that originally allowed U.S. courts to assist foreign tribunals in "pending proceedings" by compelling the production of testimony or documents by foreigners living in the U.S. Over the years Congress has steadily broadened the reach of the statute, even reaching the point in 1964, of deleting the word "pending" as it refers to "proceeding."

The deletion of that one word has created all the confusion. Some judges, as in the Azar case, say no proceeding at all is necessary for records to be released; other judges cling to the original intent of the statute and say that an official legal action must be commenced for the law to have force. Thus, in New York in June a federal judge ruled that the Brazilian government could not compel Morgan Guaranty Trust Co. to release to a Brazilian court the New York bank records of five Panamanian corporations. The judge decided instead that because the Brazilian investigation was merely an investigation in which no one had yet been indicted, the government had no legal right to the records.

With an estimated \$10 billion in foreign deposits in southern Florida

banks alone, U.S. bankers are understandably worried about the potential impact of the Azar case. "You have to ask yourself to what extent this will discourage foreign investors from depositing in U.S. banks," notes New York attorney Thomas Engel, a leading expert on the subject.

But even without the economic implication for the banking industry the Azar ruling is troubling. Both the Constitution and federal statute law protect an individual's rights of privacy by barring the taking of evidence from an opponent until a legal action has actually commenced. Why should foreign governments be granted special exception to the rule? ■



DUBAI

MESSAGE FROM H.H. SHAIKH AHMED BIN SAEED AL MAKTOUM CHAIRMAN, DUBAI BUSINESS AND TOURISM DEVELOPMENT BOARD



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That is why we have chosen this prestigious means of addressing the American business community. At the same time, it gives me the opportunity to acquaint you with the newly established Dubai Business and Tourism Development Board, and to announce the opening of its first office in the New York metropolitan area. It will serve to coordinate our long-standing efforts to promote Dubai as one of the world's principal commercial centers.

The Board will be a single source of information on virtually every aspect of life in Dubai for visitors, whether it pertains to commercial activities or our extensive tourist attractions, our superior air service, duty free shopping or five-star hotels.

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By Robert J. Bowman

Sultan Ahmed Bin Sulayem sounds like a futurist when he talks about a great international trading center rising from the desert sands of Dubai.

He sees a place where merchants and manufacturers from around the world can obtain access to a market of one billion consumers across three continents. A place where the ordinary rules and red tape of global trade do not apply—The Hong Kong of the Middle East.

But this is no science-fiction vision. The underpinnings for such an ambitious world trading market already exist. In fact, Dubai handled \$6 billion in imports last year, 75% of which were re-exported to Europe, Asia and Africa. A program of incentives for multinationals, ranging from 100% foreign ownership to no taxes of any kind, is already in place. And the government of Dubai (part of the United Arab Emirates) has invested \$2.5 billion into a project that, by all accounts, has grown remarkably in just three years.

Sulayem, chairman of the Jebel Ali Free Zone Authority (JAFZA), says that "today there are over 200 international companies doing business" there.

DUBAI



Dubai International Airport—served by 51 airlines to 95 destinations worldwide

"They account for a combined investment of about \$500 million, and they employ nearly 6,000 people." American names in the Free Zone include such multinationals as 3M, Union Carbide, Arco, M&M/Marks Confectionery, Black & Decker, York Air Conditioning, Singer Sewing Machines and Reebok Running Shoes.

JAFZA, Sulayem says, represents a concerted effort to overturn long-standing misconceptions about doing busi-

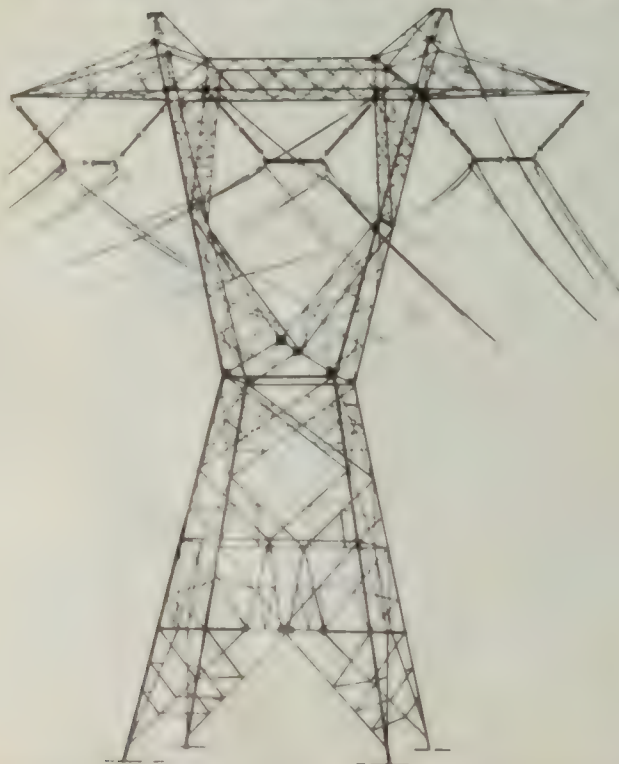
ness in the Middle East. Many American firms see the region as a place to be avoided, a sort of bureaucratic jungle that's rife with restrictions and arcane laws. The Iran-Iraq conflict and instability in the Persian Gulf have heightened their worst fears.

But there's another side to the story. Sulayem insists. "What you read in the headlines is just a tiny part of the picture. In reality, business has been booming in Dubai for several years thanks to our open-door policy on trade and political neutrality."

To spread the word, Sulayem and his team of Dubai officials have been circling the globe in recent months, meeting with top business executives, making speeches, attending conferences and manning booths at trade fairs. Sulayem points out that American companies have the biggest stake in the Free Zone, with a \$200-million investment.

The Free Zone is still young, but the strategy behind it isn't. Thirty years ago—long before the oil bonanza that enriched so many Middle Eastern economies—Dubai's ruler was hatching plans to capitalize on the city-state's centuries-old role as a trading center. By the time construction began in 1971, Dubai had sufficient revenues from oil and gas to finance the ambitious pro-

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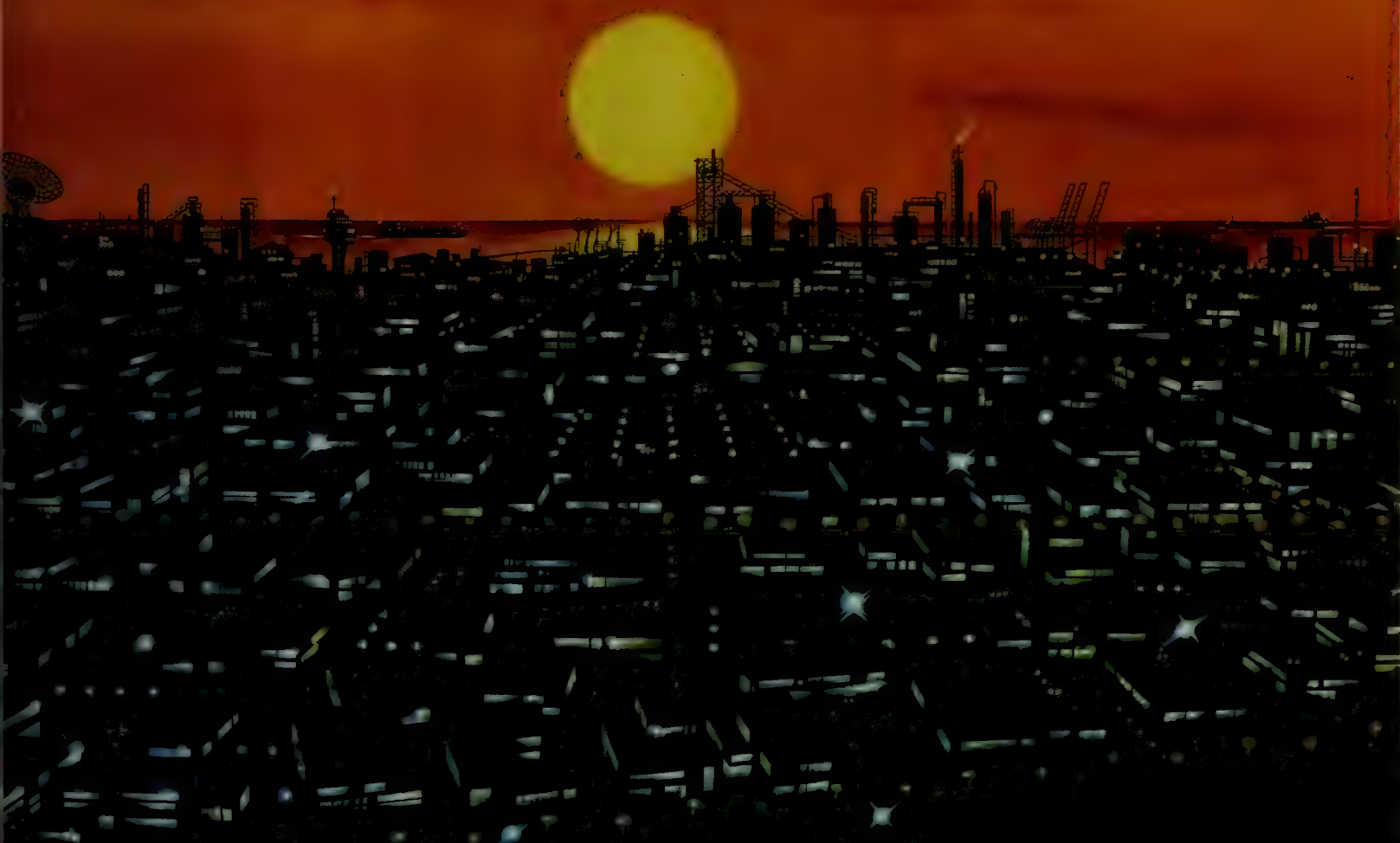


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DUBAI



Aerial of Jebel Ali Port container yard. Largest man-made port in the world.

"The money was spent wisely. "We had to diversify our economy," explains Sulayem. "We knew the oil boom would not last forever, and that a more stable and diversified source of capital was required."

From the beginning, Dubai's planners were thinking big. The first step was construction of the Port of Jebel Ali, today the largest man-made harbor in the world. It covers 2,500 acres, with 67 berths for everything from super-tankers to container ships. (The tiny dhow, a traditional trading vessel of the region, still plies Dubai Creek and the waters of the Gulf by the thousands.)

The port later became part of JAFZA, which was officially opened in 1985 and has grown into 25,000 acres that were literally carved out of the desert. Included in the complex are the Free Zone and an Industrial Zone for companies looking to source production on foreign ground. The whole complex is linked to the world through a modern system of roads and communications.

To sweeten the deal, trade architects crafted a program of incentives unmatched in the region. Total foreign ownership is permitted, along with complete repatriation of profits and capital. Companies were given a fifteen-year tax holiday, renewable for another fifteen. JAFZA eliminated import duties, personal income taxes, currency restrictions and limitations on work permits.

"We felt the time was right to advance the cause of free trade," Sulayem recalls. "Many countries were putting up barriers to trade — duties, quotas, non-tariff barriers, protectionist laws. We went in the opposite direction.

We removed them."

"The United States still holds the edge when it comes to entrepreneurial spirit," he says. "American companies are open to fresh ideas, new markets and innovative thinking."

Sulayem believes that JAFZA's success in the United States is due partly to timing, intentional or not. "The lower-valued dollar has been a strong incentive," he says. "We knew that American firms would be looking for new opportunities to export. At the same time, Dubai's dirham is tied to the value of the dollar, so you still get your money's worth in the Free Zone."

But there was an unforeseen event that prompted American companies to redirect their investment strategies: the October 19 stock market crash. In Sulayem's view, "Black Monday" stripped

some of the luster from stocks, bonds and securities, and many businesses became receptive to an invitation from overseas—especially one with minimal restrictions and start-up costs. Meanwhile, the U.S. economy was still going strong, and a number of other industrial countries were emerging from recession. Those factors tended to counteract any negative publicity about the Gulf conflict, Sulayem says, and helped JAFZA to get its message across.

Mr. Issa Balluch, manager of Gulf Express Freight, one of Dubai's largest distribution specialists and a long time presence in the ports of Dubai, believes, "that the present and future of Dubai is with international industry development." He foresees a significant rise in the multinational presence in Dubai with the recent cease-fire, and that future business will locate to Dubai as the hub of Middle East trade.

Sulayem is heartened by the apparent winding down of the Iran-Iraq war. He expects business to blossom with the end of hostilities. "The future is one of peace," he insists, adding that one of the best ways to achieve this elusive goal is to promote free trade around the world.

Sulayem's vision of the future is long range — a necessary perspective for anything so ambitious as the Dubai Free Zone. But the JAFZA chairman seems confident that his dreams will be realized. "We are seeing the development of a global economy," he says. "In the years to come, success will depend on international networks, not protectionism. That is why we are building a city of the Twenty-First Century."

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Closely linked to Dubai, Dugas has produced over five-million tonnes of Liquid Petroleum Products.

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supplier of services and equipment for the petroleum and related industries in Dubai.

Fundamental to Dubai's resolve to set up a viable industrial base, these three companies are catalysts of growth. Their work is different, but their goals converge and they enjoy their role in this exciting development...progress all the way.

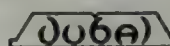
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A VISION OF THE 21ST CENTURY

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LIFESTYLE**

a place for business, living or pleasure, Dubai is unsurpassed.

With its centuries-old origins as a trading center of trading and commerce, it seems only natural that Dubai could emerge as the commercial center of the Middle East.

It is serviced by a modern business infrastructure with abundant supplies of water and electrical power, state-of-the-art telecommunications facilities, extensive banking resources and numerous hotels and conference facilities. Its transportation, roads, highways and shipping capabilities are unparalleled. Its focus is distinctly international, extending a friendly business hand to the United States and the rest of the world.

The growing list of firms locating in the Free Trade Zone are attracted to advantages which are difficult to duplicate anywhere else in the world. Goods manufactured or imported by companies located in the Free Zone are exempt from customs duty; Free Zone companies and their employees are exempt from all taxes for a period of 15 years, renewable for an additional 15-year period; 100% foreign ownership is permitted; office space rentals average \$2-per-foot-per-year; land rentals average \$1.50 per-square-meter-per-year.

With two-thirds of its population of 1,500,000 comprised of expatriates and possessing one of the world's highest per capita incomes, Dubai offers all of the amenities of modern American and European cities. The coin of the realm,

DUBAI

Emirates Golf Club 18-hole championship designed by the noted American golfer, Karl Litton.

the dirham, is pegged directly to the dollar so there are no currency fluctuation problems for American travelers. The Middle East is the only place in the world today where an American dollar still buys a dollar's worth.

Employees of American companies enjoy inexpensive, quality housing, readily available in Dubai with a choice of apartments and homes, furnished and unfurnished.

First class medical care is abundant in Dubai. It offers a total of 1,500 beds in four hospitals. The newest, Dubai Hospital, is considered one of the leading medical centers in the Middle East.

Dubai is also the educational center of the area. In addition to Emirate-run schools, there are 18 private schools within Dubai. Several are

taught in English by teachers from the U.S. and the U.K.

And for play and lifestyle, Dubai offers a varied array of leisuretime activities that Americans find to be a new kind of fun.

A reminder of Dubai's origins is the spectacle of camel racing, an ancient tradition in Dubai and the Arabian Gulf states. Camel racing is so popular in Dubai, that it has set aside a special site for the races and has constructed a new spectators' building from which to view the races.

Another ancient sport, falconry — hunting birds with falcons — is still practiced in Dubai during the winter months.

One popular pastime pursued in Dubai that is found nowhere else in the world is "wadi-bashing". Its rules are deceptively simple. It involves nothing more elaborate than driving along wadis, which are dried-up river beds that flow from the Hajar Mountains into the desert or, on the East Coast, toward the sea.

For the golf aficionado, Dubai has recently completed the creation of the new Emirates Golf Club, designed by the noted American golf course designer Karl Litton. It features a championship 18-hole course of long grass fairways and lush putting greens, a clubhouse with a five-star restaurant, squash courts, saunas and Jacuzzis, a bowling green and tennis courts. A \$14 million cricket and hockey stadium is also under construction, scheduled for completion by the end of this year.

One of the major events in Dubai is the annual year-end horse show held at the Metropolitan Hotel. And if you find

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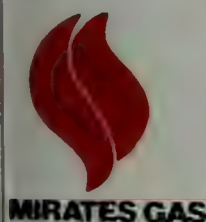
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If racing too tame, you can view auto racing. Five international auto rallies are held throughout the Gulf and Dubai is host to the finals at year's end.

For those who find shopping to be the ultimate leisure-time activity, Dubai may come as a surprise. It boasts the lowest prices for duty-free goods in the world—last year duty-free sales totaled \$250,000 a day. In addition, there are modern air-conditioned shopping centers and hundreds of traditional souks line the streets of Dubai selling every-

DUBAI

thing from fresh produce and fish to antiques and apparel.

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U.A.E. as the Middle East's commercial hub, Dubai has rapidly become one of the busiest transit points and the most prominent aviation centers in the world.

Under the leadership of Shaikh Ahmed Bin Saeed Al Maktoum, chairman of Emirates, the international airline of the U.A.E. has quadrupled its flights since it was established in Dubai in 1985.

For the increasing number of American business travelers and tourists who will be making Dubai their destination, Emirates has completed arrangements with major U.S. carriers for direct connection link-ups and package tour arrangements with the U.S. travel industry.

Many American business travelers will attest to Middle East hospitality in the air—from the stretched-out comfort of electronically controlled seats that cost \$10,000 a pair, to vintage champagne and Beluga caviar at take-off, to Roquefort cheese and burgundy following a sumptuous meal.

Today, operating a fleet of five aircraft, Emirates has won high marks for the punctuality of its flights and the high level of service it provides to its passengers. The airline's on-time record hovers right around the 98% mark.

Emirates is planning to introduce Cargo Village, a new concept in cargo carriage movement and transport that may well revolutionize cargo handling in airports throughout the world.

Emirates is rapidly expanding international door-to-door air express deliveries and expects to see that segment of its business increase by 80% this year.

In addition to modern equipment and efficient service, Emirates has the advantage of using the Dubai International Airport as its hub.

In a recent survey, air travelers voted Dubai International as one of the world's top ten airports. Among those polled, 80% said that one of its chief attractions was that its award-winning duty-free shops were a "shopper's paradise."

Colm McLoughlin, general manager of the Dubai duty-free shopping complex, comments, "Duty-free has grown faster in the Middle East than anywhere in the world...and has undoubtedly opened up new horizons for the industry as a whole but, more important is the way in which this has been achieved and the positive effect that it is certain to have on the image and reputation of the duty-free industry overall." ■

Robert J. Bowman is a national writer on world trade and economics, based in San Francisco.

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Some say the U.S. budgets too much for social welfare, others say too little. Charles Murray says this is the wrong argument.

The poverty trap

A chat with political scientist Charles Murray

By Ronald Bailey

IN 1984 CHARLES MURRAY challenged liberal orthodoxy with a startling book: *Losing Ground: American Social Policy 1950-1980* (Basic Books). Carefully researched and documented, the book showed that Great Society programs of the 1960s and 1970s had not only failed to help America's poor and disadvantaged, but they had made the poor poorer and more numerous. The welfare state encouraged the poor to behave in the short term in ways that were destructive in the long term. Indeed, the heart of our welfare system, Aid to Families with Dependent Children, discourages poor people from marrying, since doing so would eliminate their benefits. Thus has the proportion of illegitimate births, single parent families and broken families continued their relentless climb.

What discomfited the left about Murray's book was that it argued against welfare, not on economic grounds, but on grounds of social justice. Nor could the liberals dismiss Murray as a know-nothing reactionary: A fellow of the Manhattan Institute, he has degrees from Harvard and MIT and served in the Peace Corps.

This month Simon & Schuster will publish Murray's new book. Titled *In Pursuit of Happiness and Good Government*, it builds on the empirical findings reported in *Losing Ground*. Murray's consistent theme: Raising people above the poverty line is a meaningless accomplishment often just throwing good money after bad. Policymakers should instead ask how government can enable people to lead satisfying lives. For most of us, asserts Murray in *In Pursuit*, the way we go about acquiring food, clothing, shelter

and other material things is intimately bound up with the way we acquire self-esteem and fulfillment, neither of which can be given out by welfare bureaucrats; they must be earned.

So how does he think one should help the poor? Murray stresses the importance of local communities and organizations—religious, social and otherwise—in solving America's social ills. Before the welfare state was created, communities took measures to alleviate the plight of the poor.



Political scientist Charles Murray
Power to the local communities.

They could do so again. But the welfare state frees fortunate people from feeling any personal obligation to help the less fortunate. Murray told *FORBES*: "If you are fortunate, have money and have some degree of success, modern politics and social policy have given you an easy way of dealing with your conscience. Which is to vote for liberal candidates. And pay more on your taxes. Which isn't really a whole lot of money because the amount that poverty programs do add to your tax bill is quite small."

As an example of how individual and community action used to allevi-

ate social ills—and can again—Murray points to the homeless problem. Typically, he says, the homeless consist of single mothers, or single men without families. Such people used to move in, temporarily, with family or friends, who then pressured their guests into finding new jobs and new homes. Nowadays, federal subsidies for welfare hotels and the like are not only wasteful and bureaucratized. They have also eliminated the self-corrective community sanctions.

In a similar vein, continues Murray, communities used to take steps to feed hungry children, discourage teenage pregnancies and encourage healthy single young men who are not in school to get jobs. By returning responsibility for social programs to local communities, we would have a situation like that which prevailed in the earlier decades of this century.

Murray's critics will, of course, argue that Murray is agitating for a revival of Dickensian poorhouses. Murray retorts that this ignores the enormous creation of wealth in the last century. "If we returned to Jeffersonian society in our current state of wealth," says Murray, "virtually any problem of the disadvantaged you want to mention would be radically smaller than it is now."

Sounds good. But would people really take on the responsibility? Wouldn't the more fortunate continue to flee to suburban enclaves leaving the inner-city poor to shift for themselves?

That question, Murray says, is yet another example of how condescending well-intentioned people can be. They are too quick to assume that the poor are incompetent. Give local communities authority over their schools, courts and welfare services, and the inner-city poor will regain control over their own destinies. Their community organizations will mobilize to offer food and shelter to the poor, and encourage the young to get good education in schools that the communities, not centralized bureaucracies, control. To think otherwise, says Murray, is racism of the most invidious kind. It assumes that inner-city blacks and Hispanics survive only with the help of the predominately white, middle-class government.

"We tried to remove the barriers to escape from poverty, and inadvertently built a trap," wrote Murray in *Losing Ground*. "The most troubling aspect of social policy toward the poor in late 20th-century America is not how much it costs, but what it has bought." ■

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The Bigger Picture

Partners

Herb Alpert, with instrument of his choice

If you can come from nowhere and hit big once, why can't you do it again and again?

Paul Harris/Outline



A&M Records' Herb Alpert and Jerry Moss are the Graham and Dodd of the entertainment business. And just look at some of the talent they've unearthed.

Waiting for the next Elvis

By Peter Newcomb

IN A BUSINESS loaded with big egos and big budgets, trumpeter Herb Alpert and his partner Jerry Moss are the stuff of a wonder. Quietly, consistently, they have built privately held A&M Records into the nation's largest independent record company, with annual sales worldwide surpassing \$200 million. To-

gether for 26 years, Alpert and Moss are sitting on top of a hit factory worth nearly \$400 million. The key to their success is the same as the key to success in the stock market: Back properties that no one else knows about or wants.

Before they met, Moss, originally from the Bronx, had a tiny promotion and publishing company. Alpert, a trumpeter extraordinaire with some records, badly wanted to control pro-

duction of his work. In 1962 the two put up \$100 each to form Carnival Records. The first record, "Tell It to the Birds," wasn't a hit, but the partners kept going. Recalls A&M President Gil Friesen, now 51, who was hired as general manager in 1964 and today owns a piece of A&M: "We were the underdogs, scrambling—make that striving—to survive."

Their striving paid off in 1962 with Alpert's first single on the A&M label, the bullfight-inspired song called "The Lonely Bull." It quickly sold over 700,000 copies, and A&M was on its way. Four early albums reached the top of the charts, and one produced the hit single "A Taste of Honey." With the fifth album, *Going Places*, Alpert achieved a rare musical milestone: five albums on *Billboard's* top 20 chart at the same time.

But the partners knew early on that A&M couldn't live on Alpert alone. "When Herb was virtually the only artist on the label, there was this smart window display," recalls Warner Brothers Vice President Bob Merlis. "It said, 'You've tried our meat, now try our potatoes.' And the meat was Alpert, and the potatoes were a lot of esoteric British rock people." The funny thing is, says Merlis, shaking his head, "they [Alpert and

Moss] kept turning their potatoes into meat." A&M did indeed develop a sure touch in finding young, unestablished artists and turning some of them into Herb Alperets or better.

Friesen explains the strategy in Graham and Dodd value investing terms. "We don't sign big names," says Friesen. "We would rather have an artist whose career you slowly build with great credibility over time than an artist with whom you have instant chart success and that's the end of it."

To some, that's good business. To others, it means an unwillingness to gamble. "A&M doesn't compete in the area of paying millions of dollars to sign artists," sniffs rock 'n' roll impresario David Geffen, who has done his share of signing older, established stars. "They are unwilling to take the risk."

But look back at some of the unknowns the partners have signed, and their gift for finding valuable talent becomes clear. In the 1960s they brought along Sergio Mendes and Joe Cocker. In the early 1970s it was Carole King, the Carpenters and Cat Stevens. In the mid-1970s Peter Frampton, and in the late 1970s Captain and Tennille and Rita Coolidge. In the 1980s it has been the Police, Sting and Janet Jackson, all three with million-seller records. Ms. Jackson, Michael Jackson's kid sister, had a 1986 album, *Control*, that sold over 5 million copies worldwide. Most recently there's Suzanne Vega, whose gold (over 500,000 sold) debut album was followed up by a platinum (over 1 million) record containing the hit song "Luka."

The fact that Alpert and Moss have themselves climbed the ladder helps when they work with new artists. They never became "Suits from New York," as the creative types condescendingly call the corporate types. "They knew who I was and what I was doing, and they were not interested in messing around with



Partner and cofounder Jerry Moss

"Artists are not pieces of equipment."

that to make me 'successful,' " says Suzanne Vega. Says Jerry Moss: "We like to think we're selling artists, not just records. Artists are not pieces of equipment."

Once the money began flowing in, Alpert and Moss avoided the temptation to sign big names and instead channeled some of the cash into real estate. In 1967 they bought the old Charlie Chaplin movie lot for their studios. A&M's offices—a series of bungalows, a gated entrance and plenty of shade on North La Brea Avenue—are now a prime piece of real

estate in expensive Hollywood. Other Alpert and Moss real estate ventures around Los Angeles are run by Alpert's brother Dave. But for the most part, the partners kept their eyes on the source of their cash flow, entertainment. One additional push, prompted by Friesen, has been film development. Here, too, A&M looks for unrecognized writing talent. A&M will find a book, a screenplay or just someone pitching an idea. Then the company will line up a director and stars, then a studio. Financing? That A&M leaves to such studios as Universal. For acting as producer, A&M takes a fee and a share in the profits, if any. Its biggest hit to date was the movie *The Breakfast Club*, which grossed over \$50 million worldwide. But add the soundtrack rights: It was a great vehicle for the A&M band Simple Minds, for which it delivered a hit single. A&M currently has 19 films in development.

One of the most remarkable things about Alpert and Moss is that in a business where "Trust me" often means "Shove it!" their partnership has survived the ultimate danger: 26 years of working together. Their secret? Clear-cut division of labor. From the beginning, Moss has run the business side, while Alpert has stayed with the creative end. "They never had that conflict that they both did the same job," observes Capitol-EMI Music President Joe Smith. "Jerry wasn't going to play the trumpet, and Herb wasn't going to make distribution deals."

Less involved in day-to-day decision making, Alpert will soon be peddling a new women's perfume called *Listen*. But neither he nor Moss, both 53, has any interest in selling out. "I'd love to buy them, but it's not for sale," says David Geffen, echoing many others.

"This is amateur sport," Jerry Moss explains, happily. "The next knock on the door could be the next Elvis Presley." ■



A&M President Gil Friesen

"We were scrambling—make that striving."



"Our marine subsidiary is insuring vessels that a

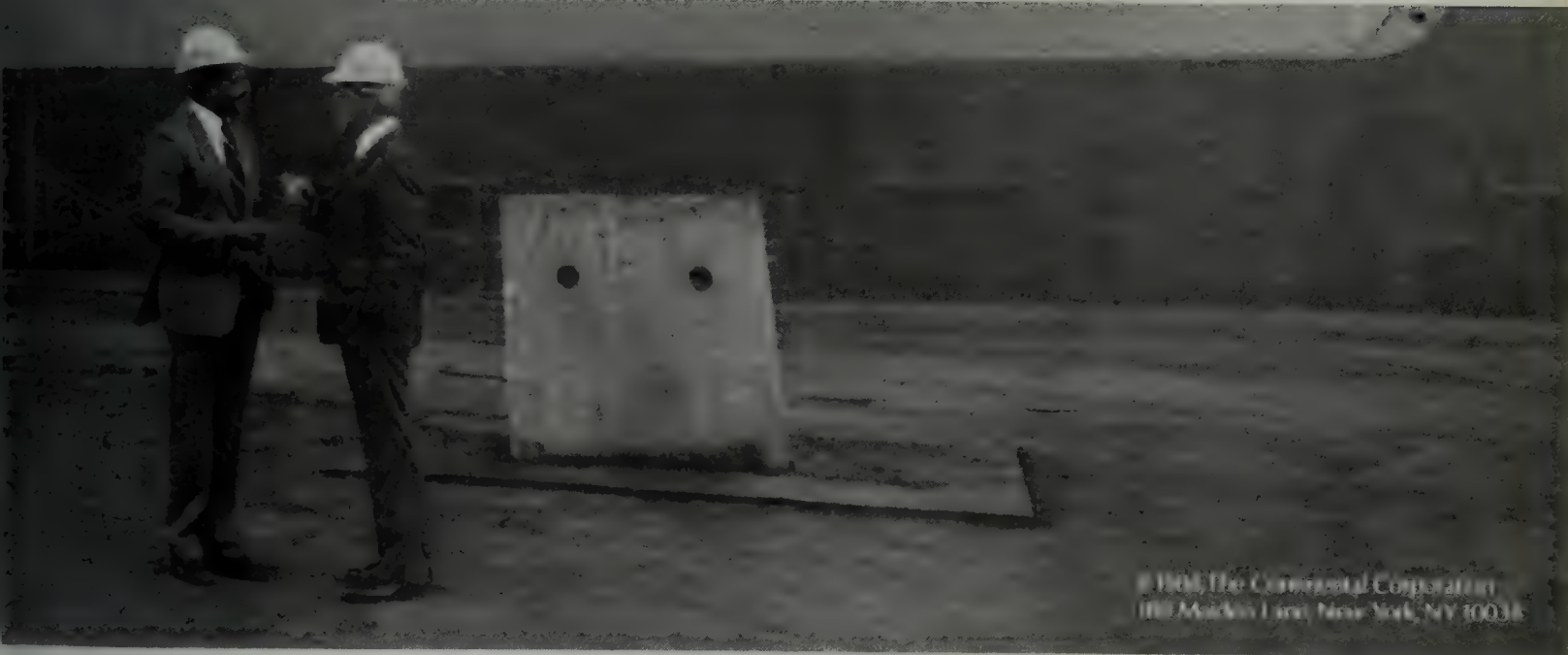


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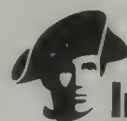
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Survivors

Now that Baldwin-United is back to being Baldwin Piano & Organ Co., shareholders have to watch for a different kind of risk.

Hard choices

By Fleming Meeks

TWO YEARS AGO, after 124 years in business, the Baldwin Piano & Organ Co. began making the Everett line of pianos for Japan's Yamaha Corp. Why work for the Japanese, who with the Koreans now control 45% of the U.S. piano market? Replies Baldwin Chairman Dick Harrison: "If we didn't, someone else would."

Such are the hard choices in the piano business these days. Although overall sales bottomed in 1985, at 151,000 units, and have slowly climbed back to 175,000 units in 1987, the business is still well below the 282,000 units sold a decade ago.

Harrison, 56, and Harold Smith, 63, Baldwin's president, led a \$55 million leveraged buyout of the company in June 1984, after bankrupt Baldwin-United (*FORBES*, Dec. 20, 1982) put the piano subsidiary on the market. They put up \$4 million of equity, borrowed the rest and began scrambling. "We knew there had to be room for at least one or two [U.S.] piano makers," says Smith. "And we just believed we could be one of those companies."

At the time of the buyout, Baldwin's 1.25 million square feet of manufacturing space operated at just 55% of capacity. A real problem was Baldwin's organ factory in Fayetteville, Ark. Over the last ten years, the market for organs had fallen off by 70%. But organ manufacturing now uses much the same machinery as for making circuit boards (electronics began replacing organ reeds and pipes some

40 years ago). So Baldwin began selling circuit boards to clients like Tandy (personal computers) and Trane (heat pumps). Revenues from this have grown from \$1.9 million in 1985 to \$11.5 million last year and an

estimated \$17 million this year.

Similarly, the managers have put the woodworking assets of Baldwin's Greenwood, Miss. factory to work making grandfather clocks. The clock business, says Harrison, grossed \$4 million in 1987 and is profitable.

But the goal is still to make it in pianos. To that end, Harrison and Smith last February paid \$17 million to acquire the piano assets and name of Baldwin's second-largest U.S. competitor, Wurlitzer, which lost \$3.2 million last year on revenues of \$25.8 million. Smith, a native Mississippian with 40 years of manufacturing experience, fired 40% of Wurlitzer's 678-person work force to cut costs. For ten months of 1988, he's projecting revenues of \$15 million, and says Wurlitzer—which will be run as a separate company—should break even by December and earn money next year.

Harrison and Smith sold 19% of Baldwin to the public in 1986 for \$8.7 million. Last year Baldwin earned \$7.1 million on sales of \$105 million,



Baldwin Chairman Dick Harrison
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John Beckman/Quadrant

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a strong improvement over earnings of \$3.4 million and revenues of \$90 million in 1985. Between them, Harrison and Smith own 44% of Baldwin's 3.9 million shares; the holding is worth over \$25 million.

It is important, however, to look closely at that \$7.1 million in profits. Of it, over \$2 million came from financing pianos. Baldwin carries some \$70 million of inventories on its balance sheet. Nearly half of that inventory is accounted for by pianos on the showroom floors of Baldwin's 500 dealers. Financing its dealers' inventories earned Baldwin \$900,000 last year—but all that consigned inventory could come crashing back on Baldwin if piano sales suddenly tank.

Baldwin also offers consumer financing through the dealers. It financed some 35% of the 34,000 pianos Baldwin dealers sold last year. These consumer loans (\$35 million outstanding) are at fixed rates, generally for 20-month terms. This activity accounted for \$1.2 million in earnings last year. But the earnings are also hostage to sales. And because Baldwin finances the loans with short-term

commercial paper, spikes in interest rates would squeeze earnings.

Baldwin's plants are now running at 60% of capacity. Elliott Schlang, an analyst with Prescott, Ball & Turben, Inc., recently revised his earnings estimate for 1988 downward, from \$7.7 million to \$6.8 million on revenues of \$127 million, because reorganizing Wurliitzer cost more than expected. (Because of a 210,000-share buyback last November, he expects earnings per share to remain around last year's \$1.73.) For 1989, however, Schlang thinks Baldwin will earn \$2.25 a share. He's bullish on the stock which now trades at around 15½.

Brian Majeski, editor of *The Music Trades*, is also optimistic. He estimates piano sales will climb again this year, to 188,000 units. The number of likely piano buyers—parents of children ages 6 to 12—is rising. Older people, too, have more time and money to spend on pianos.

And if the piano market doesn't pick up substantially? Then Harrison and Smith indicate they'll move into furniture manufacturing—a hard choice, but an understandable one. ■

Analysts may be shocked, but they have no right to be surprised by Harry Figgie Jr.'s latest corporate maneuvers.

There he goes again

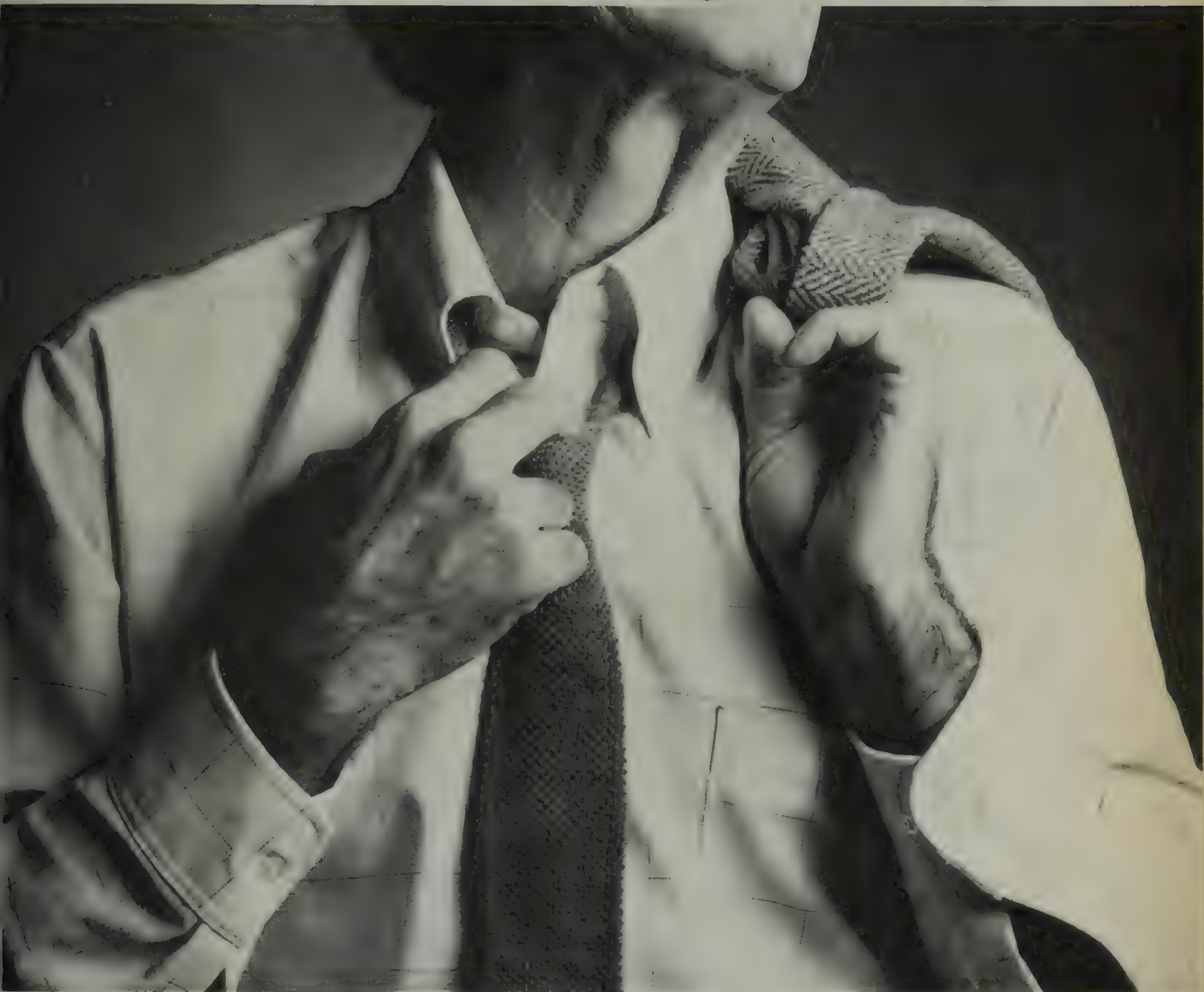
By Kerry Hannon

JUST SIX YEARS after buying 1,200 acres and moving his company's headquarters to Richmond, Va., Harry Figgie, 64, in an apparent snit, is moving it all back to his hometown of Cleveland. He leaves behind, among other things, an 800-pound American eagle weather-vane that stands atop Jefferson Hall (Figgie International's baronial administrative headquarters building), and the adjacent formal English gardens. But so be it. Word is that Figgie is pouting because the staid Rich-

mond business circles never accepted him with what he considered was the appropriate respect. So he's taking his billion-dollar business and going home.

In the last year Figgie has also managed to thumb his nose at Wall Street and another community that he apparently feels does not appreciate his effort. He did so by initiating a company buyback of 500,000 Class B primary voting shares last winter. He then paid for the purchase in June by issuing new Class A shares with only 5% of the voting power, at \$70 a share. As a result, management now controls

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Despite this corporate sprawl, performance has been solid. Figgie's five-year average return on equity is 14.6%. This year net income should reach \$65 million, nearly triple 1984 income.

40% of the B shares, which represent the lion's share of voting power. Figgie and a son, 34, an orthopedic surgeon in Cleveland, hold 12.7%, up from 9.8%.

This stock maneuver so angered Wall Street that several analysts, including W. Richard Jones of Washington, D.C.-based brokerage Johnston, Lemon and Dillon Read analyst Larry Baker, dropped coverage of the company. "There is no doubt that Figgie is shrewd, but only for his own interests," says Jones. "He has shown a complete disregard for the common shareholder. I couldn't

advise a client to get into bed with these guys."

Analysts may have been shocked, but they had no right to be surprised. Since he first acquired the Youngstown, Ohio-based Automatic Sprinkler Co. in 1963, for \$7.2 million, Figgie has exercised almost complete control over the company, even renaming it after himself in 1980.

Harry Figgie, who would not be interviewed for this article, was the super synergist of the Sixties who claimed he knew how to turn run-down companies into growth outfits. By leveraging Automatic Sprinkler to the hilt, he bought 53 businesses by 1969 and bragged that sales would hit \$1 billion by 1970.

He expounded on the virtues of his "nucleus theory" of buying a company with sales of around \$20 million as a core and then building around it. For example, out of the sprinkler nucleus came companies that made fire extinguishers, fire trucks, hoses and fire-fighters' face masks. The public was so mesmerized by Figgie's pitch that by early 1968 the stock traded over-the-counter at 74—50 times earnings.

Only one problem: Figgie didn't deliver. He said the company would earn \$2.75 a share in 1968; instead, earnings were 9 cents. Figgie was spending most of his time on acquisitions and relatively little on management. By 1974, Figgie's image tarnished, the shares were languishing at around 3.

But he hung in nevertheless, remaining a tenacious believer in old-style conglomerate building. That's quite a contrast from most conglomerates, which for the last few years have by and large done the opposite, selling unrelated assets and concentrating instead on a handful of top performers.

But today there are signs Figgie's

persistence may be rewarded. Figgie International is now a sprawling conglomerate with 40 divisions and subsidiaries. They range from athletic equipment maker Rawlings Sporting Goods (the major league's main supplier of baseballs) and hockey stick maker Sherwood to Scott Aviation, maker of aircraft oxygen systems, to Kersey, maker of battery-powered tractors. And after more than a decade of consolidation and pruning, Harry Figgie is buying again, although now he rarely makes public predictions about company performance.

Since 1985 alone Figgie has acquired 24 companies ranging in size from \$20 million to \$100 million for businesses that make everything from scissor lifts to dairy equipment to thermometers. This year he has added 8. And despite this corporate sprawl, performance has been solid. Figgie's five-year average return on equity is 14.6%, versus the conglomerate industry average of 11.1%. Debt as a percentage of equity is around 30% versus the industry average of 52.1%. This year net income on sales of \$1.1 billion should reach \$65 million, nearly triple 1984 income of \$22 million. Since 1983, when the current restructuring began, cash flow per share has doubled to \$12.80 and net profit margins have climbed from 2.6% to 5.5%.

Not that there haven't been problems. Figgie's property and casualty insurance subsidiary, Waite Holdings, has lost \$13.5 million since 1985. And in 1985 Figgie took a \$1 million writeoff when it was forced to fold American LaFrance, a 153-year-old maker of fire engines.

But mostly the recent news has been good, and the stock seems pretty cheap. The Class B shares are trading at around 81, or 8.5 times estimated earnings of \$9.45. The Class A share, with a bigger float and less voting power, are trading around 69, or times estimated earnings. Analysts estimate that within five years the break-up value of this vast corporate mishmash will be double the current share price.

The hitch here is that when you buy Figgie International, you are basically buying Harry Figgie Jr., a man who believes he is rarely wrong. Although he does not seem to be contemplating retirement anytime soon, he has also, it seems, never bothered to groom a successor. Figgie himself, what keeps it all together. Shareholders have to bet he will continue to do so, or that when he steps down or the conglomerate's parts will prove to be more valuable than the whole. ■

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Computers/ Communications

Stanley Honey had a great product and the money he needed to develop it, but his company almost foundered because he took the wrong approach to marketing.

"They told us to focus"

By Jason Hand

A VENTURE CAPITALIST with good intentions once gave Stanley Honey this advice: Stay away from brand-new technology that can't be explained to your mother, avoid the car market like the plague and

don't try to break into new markets.

"We broke all of his rules," Honey admits.

Today Honey's privately held Menlo Park, Calif. company, Etak Inc., is five years old, and turning a profit for the first time.

Instead of a better disk drive, Hon-

ey, 33, an electrical engineer who had worked at Stanford Research Institute, came up with a better road map. Called the Navigator, the original version consists of a \$35 electronic street map stored on a cassette tape and a \$1,395 combination of computer, compass and wheel sensors that read the map and figure out where a car is. The computer goes in the trunk. The result, a video display with street names, scrolls across a 5-inch green monitor mounted on the dashboard. The video map changes its orientation and moves as the driver turns the car, which is represented on the screen as a small arrow. This is just what a paper map ought to do but can't. The destination, punched in before the drive begins, appears as a blinking star with the mileage and direction from the car displayed at the top of the screen.

Honey, a sailor since his Yale Yacht Club days, got his entrepreneurial inspiration when he designed a navigational computer then used on a yacht he navigated to victory in the California-to-Hawaii TransPac. In producing the Navigator, Honey has borrowed liberally from the ancients. The wheel sensors are little more than an electronic version of a differential gear invented by the Chinese in the 4th century A.D. (see illustration). The

Doug Menuez



Stanley Honey, founder and executive vice president of navigational computer maker Etak Inc.
"I'm ashamed to admit that I wrote that business plan."

otion that a map should rotate to preserve the traveler's orientation is taken from an old style of navigation that the Polynesians called *etak*. With *etak* the sailor imagined not that he was on this or that compass heading but that the seas and the islands rotated beneath him. Honey simply took these old ideas and adapted them to the age of computers.

Nolan Bushnell, the flamboyant founder of the meteoric Atari and the disastrous Pizza Time Theater, wanted one of Honey's computers for his yacht. What ensued was a product plan scrawled on the back of an envelope and \$500,000 in seed money from Bushnell.

It was a classic entrepreneurial beginning. But it almost failed. The problem—as so often with technological startups—was not in the product but in the marketing. "I'm ashamed to admit that I wrote that business plan," Honey says today.

The big mistake in Honey's business plan was the decision to market the \$1,430 systems directly to consumers. It soon became apparent that retailing through car stereo stores was not very fruitful and direct marketing was expensive. Says Etak's new president, Charles Hart: "First you have to explain the concept to the customer, then demonstrate it. Those test drives waste a lot of time and money."

In short, it cost too much to sell the product on a one-by-one basis at retail. Thinking the product would sell fast, Honey had hired a large manufacturing staff. But to date he estimates only 2,000 to 3,000 Navigators have been installed in passenger vehicles. "We were all dressed up but there wasn't any party," he says. In late 1986 Honey had to lay off most of the manufacturing staff.

How did Honey make such a mistake? "Everyone told us that small companies should focus, so we focused on the consumer market, excluding all other possibilities," explains Honey.

While the company was stubbing its toes in the retail stores, inquiries about the commercial applications of the Navigator from companies such as Coca-Cola and the Los Angeles Times Co. were ignored. Phone calls were left unanswered. Realizing he had chosen the wrong marketing approach, Honey began to return those unanswered phone calls from commercial customers. What he found were some experienced executives who concluded that there were far more uses for Honey's invention than just keeping affluent car-buyers' MWs on the right freeway.

The Chinese differential

How does the modern Etak car Navigator know when a vehicle has made a right turn? The same way the figure atop this ancient Chinese cart knew: with a differential odometer. When the cart goes straight, the two horizontal plates (left diagram) go at the same speed, leaving the upright gear spinning in place. When the cart makes a turn (right diagram), one plate moves faster than the other, causing the upright gear to push its axis to one side. That steers the figure, which is supposed to keep pointing south. In the Etak product electronic sensors replace the wooden gears. But the concept of the differential is the same.

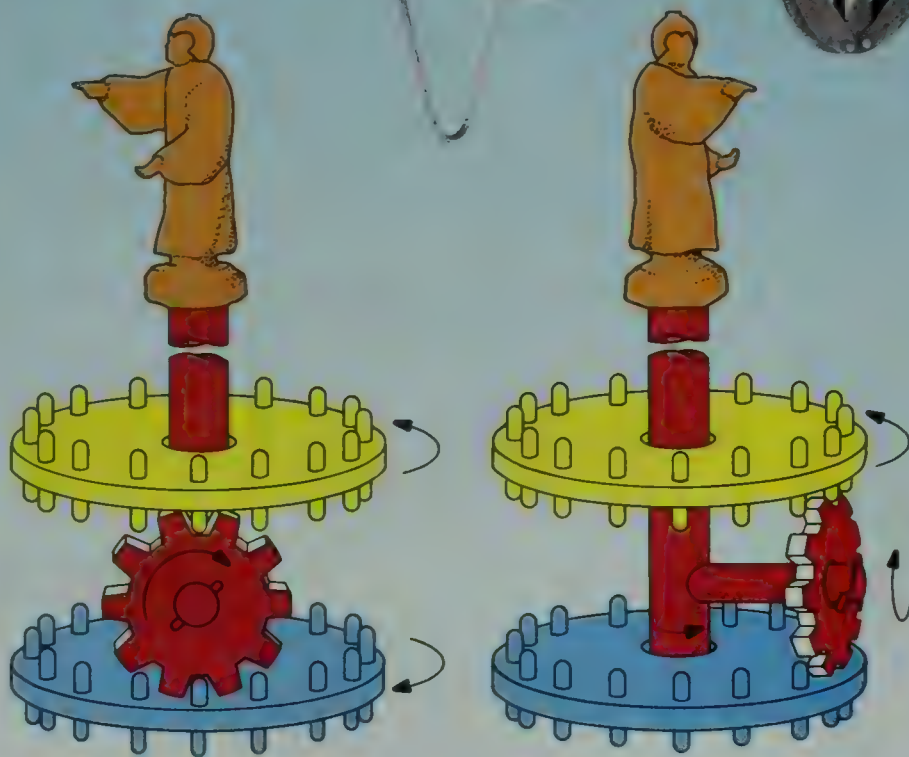


Diagram: Laurie Grace. Photo: The Science Museum

One of the first commercial applications for the Navigator came from the Albuquerque, N.M. Ambulance Service. Now a dispatcher sitting at a personal computer using Etak's maps can see where all 16 ambulances are and quickly assign them to new destinations. As a result, the service has handled a 9% increase in the number of emergency calls without adding to its staff.

Other commercial customers include delivery-dependent companies such as Coca-Cola, Frito-Lay and the Los Angeles Times. Hertz uses Etak's maps and personal computer system to provide its customers with directions. Honey says IBM is installing Etak's technology for one of its corporate customers, an unnamed national

trucking company. Marketing departments, says Honey, are beginning to experiment with the software and maps, marrying demographics with geography to study buying trends and sales opportunities. This commercial market for what is known as geographic information services came to \$115 million in 1986, and Dataquest, the market research firm, projects it will nearly quadruple to \$450 million by 1991.

In 1985 the first production models of the Navigator hit the market to the accompaniment of a favorable roar of publicity. Honey and the then president (now company chairman), George Bremser, struck a deal with General Motors that gave the auto giant exclusive rights to factory in-

*Digitized streets of Sunnyvale, Calif.
Maps may be worth \$20 million.*



Comp/Comm

stallation of the system for cars and trucks sold in North America. GM even bought warrants for 10% of Etak's stock.

Honey and Bremser have also cut a deal with Clarion Corp. for the exclusive rights to Taiwan, Japan and South Korea. Bosch/Blaupunkt GmbH secured the rights to Western Europe's and the U.S.' car accessory market under the name TravelPilot. Those licenses accounted for 20% of Etak's revenues.

Etak doesn't yet have it made. Competition is coming. Toyota is selling a navigational system in Japan as an option on one of its luxury cars. In the more important commercial fleet side of the business, other companies are selling Loran-based navigation systems that can pinpoint a vehicle's location to within 200 feet. Not good enough, says Honey. His system—which consists of 100,000 lines of computer instructions, the wheel sensors and database—is good to within 50 feet. The difference between 50 and 200 feet, Honey says, is the difference between turning onto the right street and turning onto the one before it.

Etak, moreover, boasts that it has a giant head start in producing the digital versions of city maps that are the heart of the operation. Digital map making is a slow and exacting process. The most common method is to trace a paper map with an electronic pencil called a digitizer. Honey claims his method of turning paper government maps and aerial photographs into electronic ones is three times faster and more accurate than any other existing system. The process is central to the company's success. Although Etak has been granted several patents and has seven pending, Honey says he doesn't dare patent the mapping method, for fear that a com-

Charles Hart, president of Etak

He'd rather sell to an ambulance dispatcher than a BMW owner.



Photos by Doug Menue

petitor could figure a way to legally duplicate the technology. With 78 map workers spread across four shifts doing the inputting, Etak now has 75% of the roads in U.S. metropolitan areas complete, and Asia and Europe well under way. Etak puts the value of its map library at \$20 million.

In fiscal 1988 (ended June 30) Etak turned a profit for the first time:

\$917,000 on sales of \$8.9 million. Earlier this month the company hit the road to announce that its maps have been moved from cassettes to compact discs. However, the real purpose of the tour may have been to tell the world that Etak hasn't fallen off the face of the earth and that it appears finally be navigating in the right direction. ■

In five years, one in five computers will be sold with a Unix operating system. Why?

Portability

By John Heins

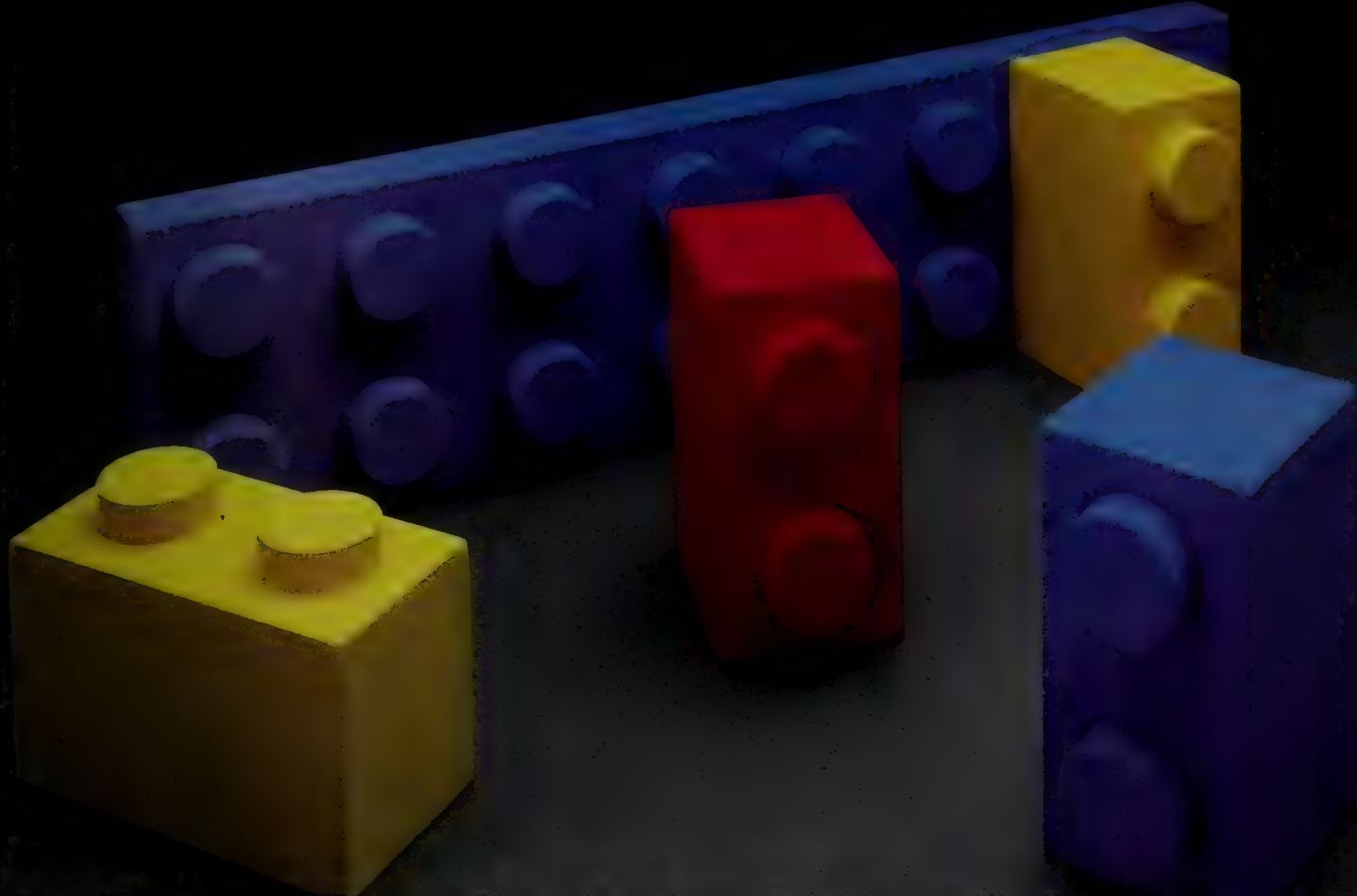
LAURENCE MICHELS and his son Douglas are popular these days. They speak at lots of seminars. Investment bankers call them all the time to see when they'll be ready to take their \$60 million (sales) software company, the Santa Cruz Operation, public. The company's sales have doubled every year since 1984, and should double yet again next year.

Five years ago, the Michels' company was broke. Few wanted to buy the Unix-based operating systems and applications software offered by their Santa Cruz, Calif.-based firm. Venture capitalists and investment bank-

ers wouldn't give them the time of day. Says Doug Michels: "They said, 'Unix, ugh, that's too weird.'"

Unix isn't so weird anymore. Developed by AT&T in 1969, Unix languished for years as a sophisticated system popular with nerds and academics. Business computers, made by IBM or Digital Equipment, say, came with proprietary operating systems. As a result, real-world applications like accounting or word processing were never developed for Unix.

But Unix is making inroads into the commercial market. According to International Data Corp., \$9 billion worth of computers, nearly 10% of a sold in 1987, had a Unix operating



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system. By 1992 that market share would double, primarily on the strength of sales to business users.

Why the surging interest in Unix? An operating system is a resource manager, a middleman between the applications software and the computer hardware. Say you want to do a spreadsheet using your Lotus 1-2-3 software. After you type in the appropriate commands, 1-2-3 tells the operating system to run the spreadsheet. The operating system then determines how best to manage the hardware resources of the computer to execute that function. It's as if your boss told you to increase your product's market share by 10% but left it up to you to figure out how to do it.

Unlike the proprietary systems sold on most computers, Unix is "open" so it can run without too much tinkering on any computer hardware. With Unix, then, different-brand computers can more easily be hooked together in a network, and software applications from one machine can be easily transported to another. Which explains why users are crazy about Unix. "Customers don't want to tie themselves to one vendor anymore," says Jerry Petersen, program general manager of Unisys Corp.'s Entry Level & Departmental Systems unit. "Technology changes too fast to have to worry about whether your new hardware will work with your existing system." Would you invest in a Sony CD player if it played only Sony recordings?

Unix provides other benefits as well. Unlike MS/DOS, the operating system that runs on most IBM PCs, Unix is sophisticated enough to run several applications at the same time and also handle more than one user at a time. Until recently only bigger computers, like workstations from mainframe systems, could take advantage of Unix' capabilities. But with powerful personal computers now able to handle tasks once reserved for big machines, this multi-tasking and multi-user capability of Unix can lead to significant cost savings.

That's why Marriott decided to automate its new line of economy

Fairfield Inns with personal computers running on Unix. Reservations, check-in, billing and other functions are handled by one computer, hooked together with three "dumb" terminals (costing only \$350 each) and two modems to communicate with headquarters. The cheapest comparable alternative, creating a network of four personal computers running on MS/DOS, would have cost 25% more, says David Capozzi, the Marriott executive who put the system together.

Sherwin-Williams plans to put personal computers running Unix in each of its 1,900 paint stores, scrapping the current traditional cash register system. "We needed a system where the computer could be more than just a point-of-sale terminal," says Roy Barta, the manager of the new system. In addition to serving as a cash register, the PC will be hooked to a terminal in the back room where information about inventory, purchasing or even paint-mixing formulas can also be retrieved. Getting the same computing power from a mini-computer or a network of PCs, says

tions written for the system. The Michels' Santa Cruz Operation is the leader, with over 35 applications packages, including software for word processing, spreadsheet analysis and relational database management. The number of application choices still falls far short of those available for the IBM PC and PC clones that run on MS/DOS, but with industry leaders such as Lotus, Ashton-Tate and Borland actively developing Unix programs these days, the gap is narrowing. Microsoft, which has made a tidy fortune off MS/DOS, sees the threat. It has, jointly with Santa Cruz Operation, produced a version of Unix for personal computers, called Xenix. Microsoft's focus now, however, is getting the bugs worked out of its new OS/2 operating system for IBM PCs.

Hardware manufacturers, too, are jumping on the Unix bandwagon. Most major manufacturers now offer a version of Unix on their machines. Even holdouts such as Apple Computer have recently begun offering a Unix alternative to their proprietary operating systems.

How rapidly Unix catches on, however, depends on the outcome of the battle over Unix' future. By forming the Open Software Foundation in May, IBM, Digital Equipment, Hewlett-Packard and others pledged at least \$90 million to jointly develop their own version of the Unix operating system. The foes: AT&T and Sun Microsystems, which are rushing to develop a new version of Unix they hope will become an industry standard. Both versions are open, but the IBM group claims that it will be more open—than no one or two computer or software vendors will have a head start responding to changes in the Unix



Santa Cruz Operation's Douglas and Laurence Michels
Unix isn't so weird anymore.

Barta, would have been much more expensive.

New York's Empire Blue Cross/Blue Shield sells a Unix-based office management package to doctors. Yogurt-maker Dannon Co. manages inventory, distribution and sales at its six regional distribution centers using personal computers with Unix. Coca-Cola, McDonald's and British Petroleum are also big users of personal computers running Unix.

The increasing popularity of Unix has led to a dramatic rise in the number and quality of software applica-

standard.

Too many "standards" will just confuse computer users, of course, and detract from the openness that is Unix' strength. "All of these manufacturers are quite willing to have an unlevel playing field as long as it's tilted their way," says Larry Michels of the Santa Cruz Operation.

"If we really have the customer's best interest at heart," says Petersen of Unisys, "we'll just have one open Unix system and let the customer decide whose hardware is better." That would be nice. ■

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Suppliers dream about corralling users into proprietary systems. But the users are not so easily rounded up.

The Texet software disaster

By Laura Jereski

THE VACANT two-story brick building at 37 Broadway in Arlington, Mass. stands as a stark reminder of a basic rule of the electronic marketplace: Don't attempt to capture your customers and truss them up to a proprietary system unless you are pretty good with a lasso.

The building's occupants until recently were the 135 software engineers, marketers and others of Texet Corp., which attempted to capture a piece of the booming \$6.6 billion electronic publishing market. The small company (1987 estimated sales, under \$10 million) had managed to attract \$20 million of venture capital from the likes of John Hancock, First Chicago and Welsh, Carson, Anderson & Stowe over six years. The venture capitalists figured there was room for a document processing system to print aerospace manuals and the like, priced at about \$125,000 and initially based on proprietary technology.

"Proprietary" here means the system would be locked into hardware supplied by Texet and not portable to machines obtained elsewhere. That's great for a supplier who wants a captive audience, but it's bad news for the user, who may want to transfer the program to another brand of computer. And that was the reason that on July 5 Texet's shareholders pulled the plug. By the end of August, when the furniture was gone, all that was left to pay creditors.

Interchangeable document processing was certainly there. "Companies like McDonnell Douglas and Boeing

will spend \$2 million on the documentation for a single project," explains Louis Giglio, a publishing systems analyst with Bear, Stearns. So where did Texet go wrong? "[Users] don't want to get stuck," he says.

Texet, after all, wasn't the only game in town. Interleaf (Mar. 31, 1988 fiscal year sales, \$58 million) sells



software it can install in any brand of hardware—workstations like Sun Microsystems', for instance. As faster, cheaper hardware comes along, the Interleaf customer can take advantage of it without discarding the software investment or retraining its people.

It wasn't always this way. One of the pioneers in electronic publishing, Kodak subsidiary Atex Inc., long ago decided to sell the terminals and other hardware along with its programs. It made sense at the time: Off-the-shelf personal computers powerful enough to handle text editing, much less PC

Comp/Comm

networks, did not exist. But now some customers with multimillion-dollar investments in Atex system find themselves locked into creaky pieces of hardware running on 15-year-old technology. Why? Because changing to the new, powerful workstations would require new investment in PCs, boards and software. One early Atex competitor, System Integrators, Inc. of Sacramento, Calif., also sells a hardware/software package. But both of these firms are getting the portability religion. Atex is working on software that would run on Sun workstations. SI, a \$59-million-a-year company to be taken private by its management, will be incorporating the OS/2 operating system.

"Publishing has been drawn into the mainstream of the computer industry, as just one more application," says Jonathan Seybold, of Media, Pa., who publishes a newsletter on publishing systems. "Companies used to selling hardware/software solutions have to make profound changes not only in the technology but in the sales and marketing organizations. They can't manufacture hardware anymore." One that he cites needing a change is Xyvision, a Wakefield, Mass.-based designer of technical document software that has to run on Xyvision boxes. Sales growth has slowed down and the company lost \$248,000 on \$35 million in revenues in 1987. Xyvision stock is off 65% from its high.

The winners in publishing systems will be those whose software can be easily ported to different computers. At the low end that means word processing programs like Xerox Ventura Publisher, powerful enough to show on a PC screen a replica of what will come out of the typesetter. Even more complex programs written for workstations, like the Interleaf system GTE is using to publish Yellow Pages, run on a variety of personal computers, such as those of Sun, Apollo and Apple.

Interchangeable parts is the way the computer world is headed (see story p. 136). The customers have wised up, so it's high time the producers did.

Cellular phone costs are getting low enough to be a competitive threat to wire telephone service in some places.

Calling more than cars

By Fleming Meeks

SKIERS IN BILLINGS, Mont. who wanted to get ski conditions and lodging information at Red Lodge Mountain, 60 miles away, used to phone up an 800 number. Now, though they may not realize it, skiers who want to check the slopes will be making the call via cellular telephone service.

Instead of calling an 800 number, skiers dial a local Billings number; that call is then relayed via cellular to Red Lodge Mountain, where it is connected through a cellular interface—manufactured by a tiny Wilmette, Ill.-based company named Telular Inc.—into the ski area's PBX. No one on either end of the call actually touches a cellular phone. Projected cost this year for cellular service: \$2,300, a savings of \$870 off the lodge's 1987 800-number charges.

Cellular service cheaper than land line service? In some cases, yes. In addition to being cost competitive with some toll-free services, cellular service, in a number of lucky instances, overlaps one or more traditional telephone area boundaries, making it cheaper to place a cellular call—where you pay only for the air time—than it is to pay the long-distance toll charges from an ordinary phone. Example: Between Wilmington, Del. and Reading, Pa. During the peak rate hours, some cellular callers pay 72 cents for a two-minute call, versus 84 cents for land line callers. For so-called foreign exchange service (basically a private telephone line between two cities with one end open) between Ashford, Ala. and Ozark, Ala., the local telephone company charges \$269 a month plus \$644 for installation.

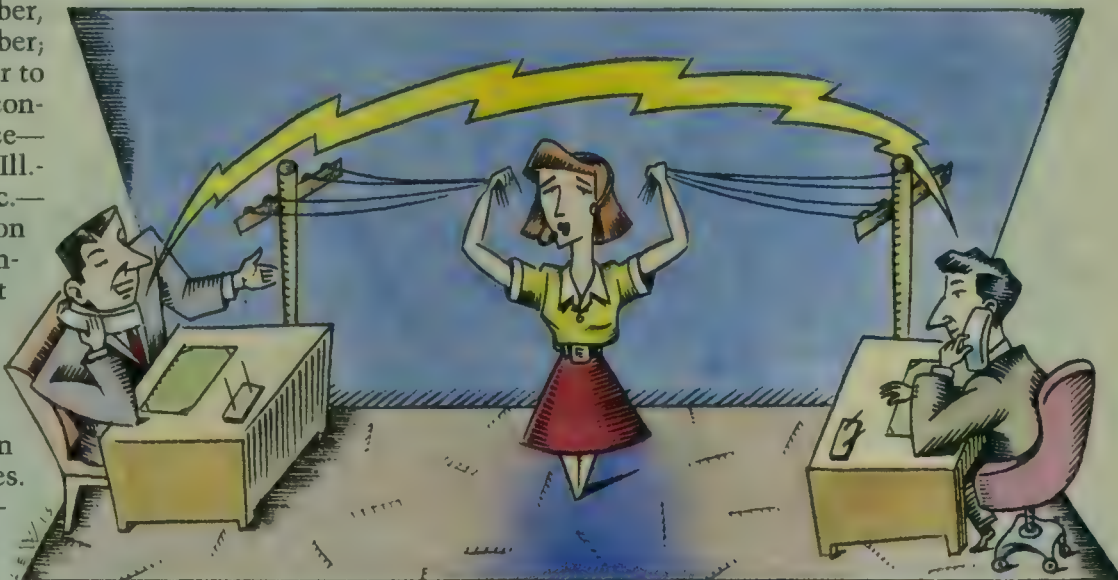
Graceba Cellular Systems, in Do-

than, Ala., offers a deal that is better for any but the most garrulous customers. Go cellular and you'll face a higher startup cost: \$1,595 for purchase and installation of the interface, plus a \$19 connect fee to Graceba. Graceba charges \$119 a month for the first 400 minutes of talk, plus 20 cents for each additional minute. Someone talking 10 hours a month would re-

Cleveland-based firm that also sells a cellular interface. And even if Telular prevails, it will still have to contend with Motorola, which manufactures and sells an interface designed to work with Motorola cellular phones.

Why all the interest right now? According to cellular telecommunications consultant Herschel Shosteck, the market potential for a cellular interface is "enormous." Toll bypass and toll-free service, Shosteck says, are probably the least significant uses for a cellular interface. But there are plenty of other opportunities out there for "fixed cellular service." They begin with alarm systems (which can't be disabled by cutting phone wires) and pay phones (35 cellular pay phones in Puerto Rico use the Telular interface). Other uses include backup phone systems for hospitals and police stations.

The largest potential market of all will remain in cellular's unique domain: mobile communications. In particular, Shosteck cites data dispatch—to mobile fax machines and computer screens—as applications whose time is about to come. The



cover the higher startup costs of cellular in less than a year.

The economics will swing even more to cellular's advantage, as the cost of the technology comes down and new applications crop up.

Three companies are already fighting over the right to manufacture and sell cellular/land line interconnects. Since last November Telular has had an injunction against Northridge, Calif.-based Morrison & Dempsey Communications, preventing that firm from manufacturing and selling cellular interface equipment. Trial for patent infringement is now under way. In addition, Telular is in litigation with Antenna Specialists, a

principal users, he predicts, will be police departments, for direct access into police computers, and the trucking industry, for keeping steady contact with its fleets as well as sending hard copy transit documents. The potential for these dispatch applications in the next seven years, he says, is between 1 million and 4 million new cellular subscribers. And each of those subscribers would need a cellular interface.

In sum, no matter what the outcome of the current litigation between Telular and its rivals, the big winner here looks to be the cellular industry itself. One small loser will be the local phone company. ■

Science & Technology

Edited by Gary Slutsker

"It very seldom happens to a man that his business is his pleasure," said Samuel Johnson. Sam Maslak, the founder of the very profitable Acuson Corp., is one of those exceptions Johnson was talking about.

Ultrasound, ultraprofitable

By Edward F. Cone

AT THE RELATIVELY tender age of 40, Samuel Maslak has already devoted almost half his life to studying, pursuing and inventing new ultrasound diagnostic techniques that enable doctors to get images of internal organs.

A science nerd in high school in suburban Washington, D.C., Maslak went on to MIT, where he majored in electrical engineering and received his doctorate with a dissertation on ultrasound. At 30, Maslak left his job at Hewlett-Packard and, after studying the possibilities for furthering ultrasound technology, founded Acuson in 1982. In 1987 Maslak married an ultrasound technician, and now the two spend much of their spare time traveling around the world to attend ultrasound conferences. "I guess you could say I really like ultrasound," Maslak says quietly.

For his enthusiasm, Maslak is being rewarded richly. The ultrasound company he founded six years ago, Acuson Corp. of Mountain View, Calif., is one of the hottest outfits going in the medical technology field. Sales will approach \$160 million this year, up from \$64 million

in 1986, and analysts expect revenues to keep growing at 30% a year. Unlike plenty of other medical technology startups, Acuson is highly profitable. Last year it earned \$16.8 million, a phenomenal 16% net margin. At a current stock price of 24¼, a lavish 23 times trailing earnings, the market values Maslak's 7.6% stake in the company at \$41 million.

Maslak's young company has al-



Acuson founder Samuel Maslak
"I really like ultrasound."

ready captured a significant share of the \$1 billion worldwide market for ultrasound machines, and it's a market leader in sales to radiologists, the largest segment. By bouncing sound waves off body parts, then projecting the reflections onto a screen, ultrasound provides doctors with a clear picture of soft tissue inside the body that X rays can't pick up. Because it involves no radiation, ultrasound is preferable to conventional X rays in certain fields like obstetrics. A third approach, magnetic resonance imaging, beats both X rays and ultrasound in the viewing of such tissues as the brain and spinal cord, but tends to lose out to ultrasound elsewhere because of its huge cost.

At Hewlett-Packard, Maslak earned a patent on the design of an ultrasound unit that, nearly ten years later, remains the basic machine sold by the computer giant. "I was ready to think about where we could go next," Maslak says. "But HP was satisfied the design we had would last ten years. I didn't want to wait that long."

So he started Acuson with two fellow HP alumni, Robert Younge and Amin Hanafy, to compete with such companies as Hewlett-Packard, Toshiba and Diasonics. Those companies were producing ultrasound machines capable of making motion picture images of internal organs (the heart, for example). But Maslak sensed that doctors and hospitals would be willing to pay a little more for sharper image.

After four years in development, and with help from venture capital firm Kleiner, Perkins, Caufield & Byers, Acuson's machine hit the market in 1983. Think of these machines as containing scores of miniature sonars, like the ones on submarines that send out and receive back pings of sound and display the results on imaging screen. Whereas the HP ultrasound machine used 64 of these sound wave sources or transducers, Maslak crammed 128 into his machine. Then he had software written to control tightly the transducers, firing them in sequence, varying the focus of each ultrasound beam and changing the effective diameter of the transducer to yield a sharper image.



TELEPHONE CONNECTION

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to make it possible. But more important,

I'll check...I'm back—what's the scoop?

it takes dedicated professionals to make

Red are gorgeous.

the technology work. So when you connect

What does he do?

with Centel, we connect you with people

Cactus? I don't know, sir...

before we connect you with technology.

He does?

Because that's what communicating

A good decision. With a bow?

is all about.

Yes, Cacti. Very much. Thank you. Good-bye.

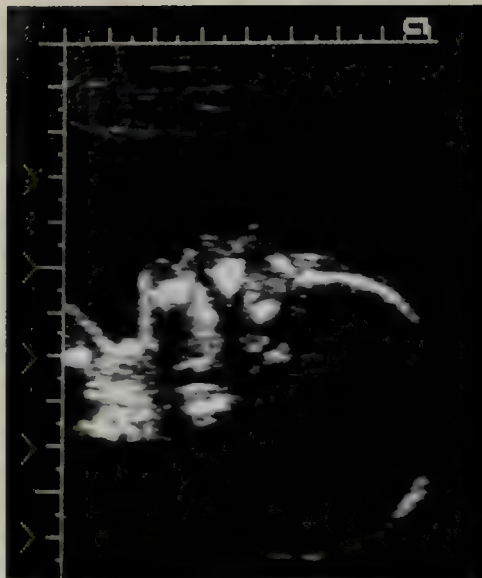
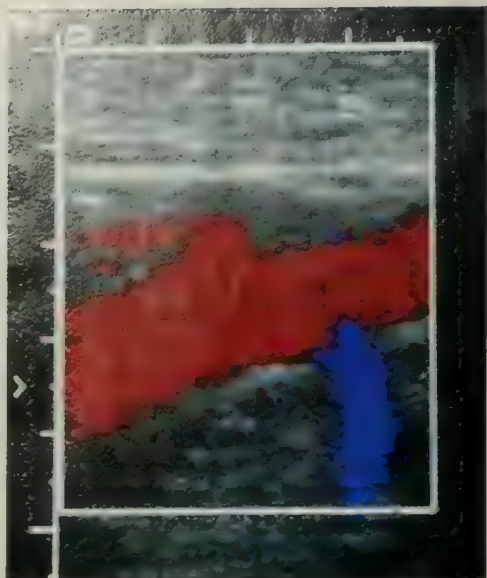
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Science & Technology



Ultrasound images of abdominal aorta (left) and fetus
Sound shows more than X rays—and it's safer, too.

All of this means that a doctor using an Acuson machine has a better chance of diagnosing a cancerous growth on the liver than if he used a machine with fewer transducers and less ultrasound data.

A key principle behind both Maslak's and his competitors' machines is something familiar to high school physics students, the Doppler effect. C.J. Doppler, a 19th-century physicist, showed how waves appear to

change in frequency when the wave source is moving to or from the receiver. The Doppler effect explains why sirens sound high as they approach and drop in pitch as they move away. It also explains how cops catch speeders. Bounce radar waves off a moving target, and the pitch of the reflected waves tells how fast the target is moving. In an ultrasound machine the Doppler effect is used to calculate the velocity of blood flowing through a vessel. This can instantly alert a doctor to constricted blood flow, for example, something that previously would have been possible only with an angiogram. Maslak engineered a system that can transmit and receive at the same time both Doppler waves to show blood velocity and ordinary ultrasound waves to show organ and blood vessel outlines—something that the competition has only recently been able to match.

One of Maslak's better ideas came in the boardroom, not the lab: upgradability. Acuson's radiology machines, at around \$200,000 each, cost up to 30% more than competing machines. But because, as the technology advanced, Acuson's machine has been consistently upgradable simply by adding new software, it has often been cheaper in the long run. And it's much cheaper than a magnetic resonance imager that the hospital can't write its exam fee a lot lower—\$200 versus \$600—and still get a faster payback.

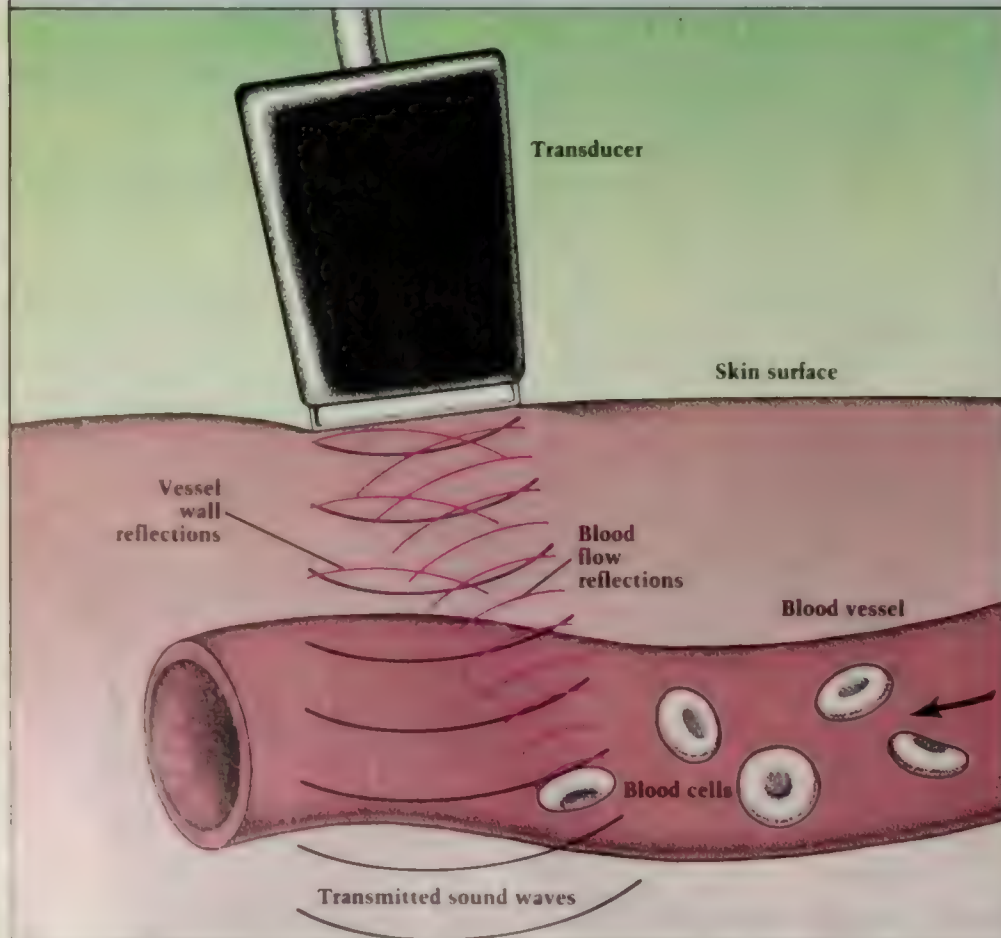
"What we're looking for is high image quality and upgradability," says Edward Nickoloff, a physicist in the radiology department of New York's Columbia Presbyterian Medical Center, which just purchased three Acuson machines, for a total of \$710,000 after looking at all competitors.

Growth in diagnostic ultrasound will continue as new applications emerge, such as the earlier diagnosis of cancer. A doctor might someday be able to spot a malignancy from irregular blood flow.

So far, Maslak has been successful in making the leap from the engineering workbench to the executive suite. Can he continue to run ahead of the pack? "Sooner or later," says Hambrecht & Quist analyst Paul Brown, "you have to think the competition will catch up to Acuson's technology. But they haven't done it yet, and they're chasing a moving target." ■

The sharper image

Sound waves bouncing off internal organs create pictures for the doctor, and the larger number of sound sources in Acuson's ultrasound machine give a better picture, doctors say, than the competition's products. Other waves—here, going off at an angle—work from the Doppler effect to measure the velocity of blood cells. This schematic is not drawn to scale; cells are microscopic.





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Marketing

Edited by Jeffrey A. Trachtenberg

Milwaukee's impressively profitable women's wear maker, JH Collectibles, got that way by shamelessly copying top designers and audaciously limiting shipments to its best customers.

Lauren and Klein at half the price

WHEN MINISKIRTS bombed in the stores last year, JH Collectibles hardly blinked. The aggressive but coolly shrewd Milwaukee marketer of jackets, skirts and blouses for career women had figured from the start that minis would be a fashion flop. "The daughter of one of our employees complained that her employer's dress code prevented her from wearing them," explains JH's owner, Ken Ross. "We checked across the country and found a lot of professional offices also had dress codes. So we shipped mainly long skirts and had a terrific season."

Listening carefully to customers is simply good business, of course. But JH Collectibles has become an industry powerhouse by combining an unflappable, ear-to-the-ground operation with an audacious marketing strategy. At a time when most apparel manufacturers are desperate to increase their department store business, Ross refuses to ship to branch stores he thinks are in second-rate markets. The result is that he has successfully imposed shipping limits on some of the most important retailers while steadily increasing his own margins and profits

Consider: Last fall JH Collectibles chopped its business at Macy's New York to 7 stores from 17 and at Bamberger's (now Macy's New Jersey) to 11 from 23. This fall it cut Marshall Field's from 24 to 14 stores and Hecht's from 13 stores to 6. When Jordan Marsh suggested increasing its Collectibles line from 6 stores to 24, Ross told the company that he would ship only to its 12 top stores. Why? Because Ross doesn't want his clothes



Ken Ross, owner of JH Collectibles

Not interested in second-rate stores.

being marked down at the weak branch stores and sold at less than their full price.

"All stores do volume, not all stores do regular price volume," explains Ross, a soft-spoken 60-year-old who masks his tension by chain-smoking Winston Lights. "If half the stores in a chain do 75% of the business, why do we want to be in the other half? If all locations are right. A department store chain with some downtown locations may now be serving off-price customers."

You would think such market arrogance would have the retail chains fuming. But Ross gets away with it because his strategy works well for the chains as it does for him. Philip Miller, chief executive at Marshall Field's, insists Ross never dictated any cuts to him. But Miller adds, "He believes, and we agree, that a collection sells best when it is presented in full rather than being spread out in many stores." Presenting a full collection avoids the markdown

Profitable? Ross says that by concentrating on fewer stores, he has boosted sales and earnings, because the stores that get the line carry it to greater depth. Presenting the clothes together with the right belts and scarves excites the customers, Ross says. But when retailers put only a small selection on the selling floor, nobody cares. "We do more business with Macy's with 7 stores instead of the 17," he boasts.

This year the company will generate about \$175 million in sales at wholesale—including \$100 million from 14 company-owned outlet stores. Return on equity? Nearly 40%, against 13.3% for the most public companies. Pretax profit margins will be up to 12%, compared with 10.4% for the majority of the industry. The business includes 103 stores in England—Hampden & Vey Nichols, Harrod's, House of Fraser—plus growth in Australia, Canada, and South America.

The company production formula is fairly simple: it prospers by manufacturing classic women's suiting, English country sweaters, and flannel skirts like those sold by Ralph Lauren or Anne Klein, and offering them at half to two-thirds of the price. "You'd really have to count the stitches

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A new JH Collectibles ad
Fashion at a price.

square inch to tell the difference," says Marvin Goldstein, executive vice president at Dayton-Hudson Department Store Co. "We get almost no returns or complaints about value." Here blouses cost \$70, houndstooth check wool jackets \$162, and flannel skirts \$112.

JH Collectibles spends 2% of its sales on advertising. This fall that included 16 pages in September *Vogue* at a cost of more than \$500,000. The company also printed a lavish four-color catalog, which such retailers as Bloomingdale's and Dayton-Hudson Department Store sent to their own customers.

"The ads in *Vogue* help convey a great image to the ultimate customer," says Ross. "Also, it helps us put goods in the stores in quantity." Ads also appear in *Elle*, *Texas Monthly*, *Vanity Fair* and *Los Angeles*.

JH Collectibles owns factories in south Milwaukee and Missouri, and uses 30 ILGWU union contracting shops. There is also a 450,000-square-foot distribution/design center in Milwaukee that the company rents from Ken Ross at only \$2.25 a square foot. Although nearly 90% of each line is made in the U.S., the sweaters come from the Orient and Spain, the majority of the blouses are made in Manila. Returns average less than 1% of all goods shipped, in part reflecting the company's decision to test new contractors for one year before placing major orders.

Formed in 1945 as Junior House, the company originally manufactured clothes for the young women's market. (One of the early ads featured Debbie Reynolds wearing a Junior House outfit in the 1952 movie *Singin' in the Rain*.)

The company stagnated in the early 1960s and was acquired by Ross and his father-in-law in 1963. Fifteen years later Ross owned it all.

The big change came in 1977, when Ross decided to target career women. Only this year, however, was the company's name changed to reflect that transformation. "JH Collectibles

attracts a customer who desires the lifestyle marketed by the top designers but who can't afford those labels," explains Goldstein of Dayton-Hudson. Today JH Collectibles' clothes are in 5,000 to 6,000 stores. Its major competition is companies like Jones New York and Evan-Picone.

Another secret of Ross' success is his ability to hang on to top people in an industry. The chief designer, a Japanese woman named Yoko Gochinas, has been with the firm for 26 years. In the last 10 years, Ross adds, only 2 of the company's 25 top executives have left, and those 2 retired. How come? He says he pays high salaries and sweetens the pot with a retirement plan supplement to the company's 401-K. "We want all of our executives to be wealthy when they retire," he says. "Since they can't earn more elsewhere, they stay."

The sales force is also stable—not surprising, since annual commissions

range as high as \$500,000. That too is unusual in the garment industry where most companies divide a sale representative's territory once the commissions top six figures. "The greatest fear a salesman has is concern that if he makes too much money he'll be penalized by losing his territory. We don't do it."

What's next? The company is trying to convince more of its retailers to build special JH Collectibles in-store boutiques such as the one at Bloomingdale's in New York. Again he believes he has a powerful argument. "There's no secret to doing business at retail," says Ross, who is absorbing some of the payroll cost involved in the stores. "It depends on good salespeople. The major stores are so concerned about cutting expense that they don't have enough help. Where we've opened our own shop, business has gone up at least four times."—J.A.T.

Keds sneakers, once the shoe of choice for American jocks, got blown away as the athletic shoe business exploded. Now, as the industry slows, a new owner has put marketing muscle in the venerable brand.

Back in the game

By Laura Jereski

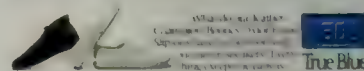
LET NIKE AND REEBOK slug it out in inner-city playgrounds, with their \$40-million-plus marketing budgets and celebrity endorsements from athletes like Michael Jordan and director Spike Lee.

None of that for Keds. Instead, this division of Stride Rite Corp. has pinpointed department store customers more accustomed to shopping on Fifth Avenue and in posh suburban malls. In a product revival as stunning as it is profitable, young stylish women are slipping on the classic canvas sneaker with the blue Keds label.

With little advertising fanfare, Stride Rite has done what many consider to be almost impossible: It has revived a famous brand name that appeared to be on the edge of extinction. A revamped marketing strategy,



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Keds marketing head Barbara Scott
Rebuilt the business on price and color.

which purposely downplays Keds' basketball and playground heritage, has tripled sales over the past two years, to \$150 million. That's boosted operating profits from \$11.6 million to an estimated \$39 million this year, according to Steven Frankel of Adams, Harkness & Hill.

Today Keds owns about 8% of the almost \$1.5 billion women's canvas tennis shoe market, where the brand generates over half of its sales. Envious competitors like Reebok are now attempting to launch canvas lines of their own.

Quite an accomplishment considering Keds' recent past. From its birth in 1916 to the mid-1950s, Keds had been tops in sneakers. But in the 1970s makers like Adidas and Nike moved in on the feet of some of the most famous runners and athletes in the world. Keds' then parent company, Uniroyal, failed to recognize that the sleepy sneaker market was changing quickly. The one-shoe-for-all-sports mentality was disappearing. Runners, basketball players and the tennis set all wanted products designed specifically for their sport.

Uniroyal had grown accustomed to spending around \$2 million annually to promote Keds. Its lukewarm marketing commitment meant that the Keds brand was quickly overwhelmed by co-op dollars available to mass retailers like K mart and Sears. By 1982, when Stride Rite plunked down \$10.5 million in cash for the \$100 million business, Keds had been losing \$20 million a year.

Stride Rite stumbled at first by trying to move in on the men's athletic shoe business. It launched Pro-Keds, a



Keds President Janet Emerson
By 1993, \$500 million in sales.

leather shoe for male jocks that was positioned as an alternative to Nike and Adidas. But the Pro-Keds shoe lacked the ad budgets of its much bigger competitors. Many amateur athletes who took their sport seriously never gave the Pro-Keds sneaker a second look. The line was killed in 1986, and Keds no longer focuses on male jocks.

"A lot of marketing dollars were being siphoned off to Pro-Keds and the core women and kids business wasn't being supported," says marketing director Barbara Scott, who joined Stride Rite in 1984 from Abraham & Straus, the New York-based department store chain now owned by the Campeau Corp.

Scott's notion: Deemphasize the

men and redesign Keds' old but famous canvas sneakers for women and kids. Reposition Keds as a classic, in other words, and move it into department and specialty stores because that's where women get fashion ideas.

More than that, she had some key marketing advantages: a well-known brand and a moderate price. Keds' \$25 price point has enabled it to gain market share even against such new competitors as Liz Claiborne, Ralph Lauren and Calvin Klein.

Another reason that price is a key: It encourages women to buy more than one pair, especially now that Keds has joined the color revolution. Three years ago the white classic Keds sneaker accounted for 75% of sales; today white sneakers contribute 50%.

The thriving kids business, another 30% of sales, has also edged those white shoes aside. Keds has brought back the lively patterns, like barnyard animals, and the novelty items for which it used to be known. A top seller: a sneaker that glows in the dark, which Keds markets with a flashlight.

But the famed canvas sneakers, though colorful and popular as they now are, couldn't provide all the growth Stride Rite's management wanted. New products were necessary, and this time Keds appears to have a winner. Its new leather sneakers list at \$40, about \$5 less than the lowest-priced Reeboks, and are expected to contribute 25% of sales in 1988. One advantage of leather sneakers is that customers wear them in winter because they are warmer.

Thus Keds' volume has zoomed at a time when the athletic shoe market has slipped from 30 million pairs in 1986 to 27 million pairs last year. A good time, says conventional market wisdom, to boost ad spending. Keds' advertising budget has almost doubled, to \$7.6 million, for this year, and will almost double again in 1989. That means more television, in addition to ads in *People*, *Self*, *Vogue* and other magazines. Keds recently moved its advertising account to Leonard Monahan Saabye & Lubars, in Providence, R.I.

The company's next moves? Keds' 40-year-old president, Janet Emerson, recently arrived from the Famous Barr division of May Department Stores, points first to Keds Kids, a licensed line of children's clothes aimed at the department store market. Emerson believes that Keds can be a \$500 million brand by 1993. How? She is also taking aim at the women's casual shoe market, worth an estimated \$1.4 billion at wholesale. ■

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Personal Affairs

Edited by William G. Flanagan

Everyone wants a swimming pool these days. Which is reason enough to think twice before you take the plunge.

That sinking feeling

By Edward F. Giltenan

LIKE MANY A successful professional, Michael Bornstein, 43, a Modesto, Calif. radiologist, decided last May he deserved his own swimming pool. And not just a boring

rectangle of aqua, mind you. For his dramatic, terraced, hillside home, he chose a semi-kidney-shaped pool with a concrete deck. Visions of doing half-gainers in his own backyard by Labor Day danced in his head. Projected cost: about \$40,000.

Now five months have passed, and Bornstein has, not a sparkling show place, but a hole in the ground filled with Gunitite and surrounded by mud. Minghelli Pools, based in Sacramento, Calif., walked out on the job without even making the pool deep enough to meet standards for a diving board.

So far, the radiologist has spent \$27,000, and it will cost an estimated \$25,000 more to put the pool right and finish the job. But other contractors will not guarantee the mess left behind by Minghelli. The builder has at least 20 other homeowners in the Sacramento area breathing down its neck, and has filed for Chapter 11 protection.

As Bornstein's experience shows, building a pool can be a nightmare at any time. But in the wake of last summer's scorching weather and increasing pollution of beaches, potential pool owners may encounter unexpected problems and delays. In the Midwest, with the approach of winter, plus greater demand because of the drought, buyers have to wait until next year just for a hole to be dug.

There are now 2.3 million residential in-ground pools in the country, up 44% from 1980. Prices have been rising almost as fast. The average cost of a plain-vanilla, 20-foot-by-40-foot



A "free form" pool in Yuba City, Calif. Cost: \$47,000.
But what will the buyer of your home pay for it?



Michael Bornstein and family and their dream pool
So much for dreams of half-gainers.

Fred Mertz

lover Gunite pool is now \$29,500, 50% more than in 1980. Something fancier, resembling, say, a mountain stream with appropriate landscaping, waterfalls and islands, could cost \$50,000. Even as the costs of building and maintaining a pool have been rising, it has become harder to find people to do the job right.

Zoning authorities are getting tougher all the time on pools. Where pool owners once could simply pump the backwash from filters onto the ground, for example, in some places you now have to add a "bee-e" holding tank, to let backwash seep slowly into the soil, or else a dry pit. Cost: up to \$1,000. In Sacramento, if you have oak trees in your backyard you may have to forget about a pool. Zoning laws could prevent you from clearing the trees.

Fences are now required in most communities, and authorities mean business. The pool-encircling fences usually must be at least 4 feet high, and have self-closing, self-latching gates. Typical cost: up to \$5,000. And there are few options for choosing an attractive fence.

Virtually all communities now have setback rules stipulating how far a pool must be from property lines,

too. And if your home is on or near the water, there are other potential problems. On Long Island and in Connecticut, for example, natural wetlands are protected, even if you own the property. Albert Rizzo, a Connecticut pool contractor, owns 40 acres of buildable land in Glastonbury that have been whittled down to 24 acres by wetlands restrictions. And he has had several pool jobs closed down when wetlands were found nearby.

Owning a pool rarely makes economic sense. It's far from certain that the cost of a pool will be recovered when you sell your home. Some would-be buyers won't have a pool under any circumstances. (It generally costs \$3,000 to \$6,000 to break up a pool and fill in the void with soil or sand.) Others (especially in a buyer's market) will say they hate your pool, and negotiate their offering price accordingly, even if they adore the pool.

Still, despite the costs, aggravation and zoning problems, some homeowners insist upon installing pools. If you are among them, heed the following before you take the plunge:

- Before you even call a builder, check out local zoning regulations to find out what requirements must be met. Don't trust your contractor to be up to

speed on everything. Remember to ask about guidelines for construction—especially electrical grounding and plumbing. Local building inspectors can be very meticulous about how they are done.

- Be careful about your builder. Go beyond the usual caveats. Credentials may mean little. Minghelli Pools was a member of a national builders' association (the National Spa & Pool Institute), and look what it got Bornstein. In checking a list of previous customers, go several years back to see how their pools are holding up.

- Get as firm a commitment as possible on completion dates. After the hole is dug, a good contractor should be able to complete a simple pool within a month.

- Pay as little as possible up front. Every dollar you owe is a dollar more of leverage to get satisfaction.

Note: One pleasant surprise you're in for with your pool is the cost of insurance. Many carriers already provide coverage under your homeowner's general liability policy. But it's a good idea to beef up your coverage, especially since an additional \$1 million of coverage may cost you only around \$150 a year.

Clear-headed flying

Flying with a cold can result in an ear or sinus blockage serious enough to require immediate medical attention. And having your sinuses drained is something you'll not soon forget.

Short of canceling your flight when a cold strikes, here are some ways to avoid congestion problems.

- To equalize the pressure on either side of your eardrum, swallow or yawn frequently on descent. Chewing gum or sucking on a candy can also help. If your ears still remain blocked, Dr. David Fairbanks, clinical professor of otolaryngology at the George

Washington University School of Medicine, suggests this trick, well known to scuba divers, who must often clear their ears while diving: Pinch your nostrils shut, take a mouthful of air, and then, using your cheek and throat muscles, force the air into the back of your throat as if you were trying to blow your thumb and forefinger off your nostrils. The object is to hear a loud pop, which means you've unblocked your ears.

- Use a 12-hour nasal decongestant spray (such as Afrin) or a sinus decongestant pill (like Sudafed). Use them at least one hour before descent, or

before the flight if it's a short trip.

Note: Babies and children have narrow eustachian tubes, which is why they cry so often on descent. To relieve their pain and pressure, warm them before descent and either nurse or bottle-feed babies to increase the swallowing.

Dr. Fairbanks has written a pamphlet for the American Academy of Otolaryngology entitled "Ears, Altitude and Airplane Travel." It is available free of charge by sending a stamped, self-addressed envelope to Ears, Altitude, care of the American Academy of Otolaryngology-Head and Neck Surgery, 1101 Vermont Avenue, N.W., Suite 302, Washington, D.C. 20005.—**Francesca Lunzer**

The next time you see Paris



Behind a temporary covering, the Arc de Triomphe gets a face-lift. The Bastille-stormers of 200 years ago would be proud.



The new Grand Arch in La Défense, on the outskirts of Paris. Faced in marble, and dwarfing the Arch at l'Etoile.

From Rouen to Toulouse, from Strasbourg to La Rochelle, France is throwing a bicentennial bash extraordinaire next year. In the U.S. too, scores of exhibitions, festivals, lectures and shows will take place over the country.

Paris has been prepping for years for this 200th anniversary of the beginning of its historic revolution. Just to openers, the Louvre's museum space is being expanded and renovated, and the Arc de Triomphe has been restored. And, west of it in the business center of La Défense, at the end of the Avenue Charles de Gaulle, a new Grand Arch, 110 meters square and faced in marble, has been built.

Here's a partial list of special events marking the bicentennial in France:

Jan. 1—The opening ceremony at Place de la Concorde in Paris, which will be internationally telecast.

Jan.-Apr. 15—*Liberty or Death*, a play by Robert Hossein, at the Palais du Congrès, Paris.

March-September—"When I Danced with Marianne." A retrospective exhibit of the first centennial of the revolution. Petit Palais, Paris.

March-December—"Once Upon a Time in Paris," historical films on giant screens and other festivities in the Bois de Vincennes, Paris.

April-October—Eiffel Tower centennial celebrations, with sound and light shows, fireworks, exhibits.

May 1-July 5—Films on the French Revolution, Place de l'Hôtel de Ville, Fridays and Saturdays. Paris.

May 15-Aug. 28—"La Danse en Révolution." Ballets with Maurice Béjart, the Paris Opera Ballet, Antonio Ballester, the Bolshoi. Grand Palais, Paris.

June 17—Reenactment of the Estates-General meeting. Cast of over 1,000. Versailles.

July—Special exhibits, shows, historical



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cal reenactments, pageants, all over France.

July 9-16—"The Sails of Liberty," tall ships from all over the world. Rouen.
July 14—Fireworks, festivities, merry-making on Bastille Day, the French equivalent of our Fourth of July.

July 15-30—Opera festival at Versailles. *La Traviata* and *André Chénier* with Plácido Domingo, Maddalena Di Cugno.

Aug. 26—Concerts held at the new "Grande Arche de La Défense."

Dec. 31—Opening of the lyric season at the new Opéra de la Bastille. Mozart's *Don Giovanni*.

Accommodations in Paris promise to be tight, especially in the traditional tourist summer season. But the final dates of some major bicentennial events were late in coming, so you should still have a broad selection of hotels to choose from.

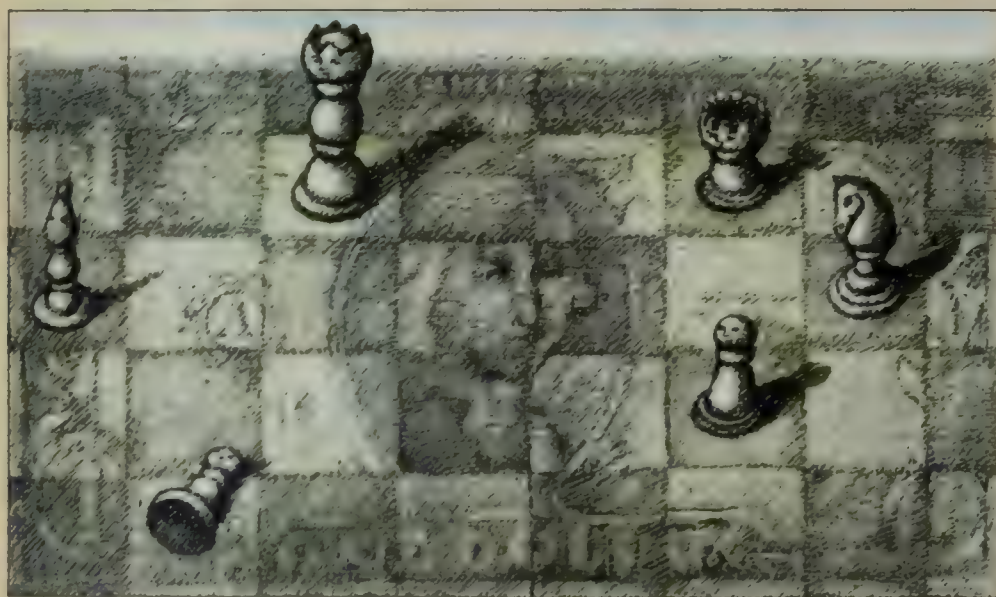
The best-rated hotels in Paris (Ritz, Plaza Athénée, Bristol, Crillon, Résidence Maxim's, etc.) run around \$400 for a double per night these days but can still be jammed, especially when big shows (fashion, auto, etc.) are in town. Most of the major chain hotels (Hilton, Inter-Continental, Meridien, Accor and Pullman) are down a notch or two in price and often have reduced-rate packages.

The French Government Tourist Office has an updated list of select hotels in all price ranges—there are some 35,000 hotel rooms in Paris at well under \$100 a night. The FGTO also will provide you with details of bicentennial events. Note: Some guide books at your local bookstore may be badly dated. Frommer's 1987-1988 *Guide to Paris*, for example, states that you don't need a visa to visit France (you do; apply at your nearest

French consulate). The Frommer book fails even to mention the spectacular Musée d'Orsay, which opened two years ago.

Odds and ends: For an up-to-the-minute update, in English, on special bicentennial events taking place when you are in Paris, call 47.23.61.72. . . . You should leave at least two hours for getting back to Charles de Gaulle airport and check-in. Traffic is often heavy and packed flights and tight security can mean long lines—even after check-in. . . . If you want to reclaim VAT taxes on purchases, you must do so before checking in for your flight. . . . Be certain to bring your Visa card with you. It's the only credit card accepted at a lot of places these days. . . . Don't cash traveler's checks at JFK. Bank branches at the airport charge \$3 to change a \$100 check.—W.G.F.

The long and short of capital gains



Quick: In calculating the tax treatment of capital gains and losses this year, does it make any difference whether your gains and losses were long term or short term?

No, not really. Under the 1986 tax act, capital gains are taxed at the same rate as ordinary income. But William Goldberg, national director of personal financial planning services for KPMG/Peat Marwick, cautions one and all to have an eye to the future. Maybe the timing of losses and gains will once again be important—if preferential treatment of capital gains is restored by the next Administration. Notes Goldberg: "The [short- and long-term] structure has been left in the system."

As you do your year-end tax planning this year, you'll find that the rules on gains and losses are a great

deal simpler than in the past.

The 1986 tax act, you'll recall, put the kibosh on the favorable 20% rate at which capital gains were taxed. Nowadays, such gains are taxed at your personal income tax rate, typically 28% or 33%. And the tax rate is the same whether the investments on which you made those gains are one day or one decade old. Same thing for losses. You can deduct your investment losses from your gains, dollar for dollar, before toting up your tax, no matter whether they are long or short term.

But if you have only losses, you can deduct only \$3,000 worth of those losses from your ordinary income in any given year. The rest you have to carry forward—same as before.

Let's take a couple of examples. Say you had the nerve to get back in the

market early this year, and are ahead \$10,000. But you're getting nervous and want to cash in. If you also have losses—including losses left over from last year that you couldn't take then—you can deduct them from this year's gains. Forget how long you have held the securities. If you have more than \$10,000 in losses, you can apply that amount against this year's gain and still carry forward any remainder.

If you have no losses at all, however, or still show a net gain after deducting losses, the tax rate will be 28% or 33%, depending upon your tax bracket. There's no current favorable tax treatment on the capital gain.

But say you want to hold on to your stocks or other property in the hopes that the next Administration will restore a favorable rate. As long as your gains are more than one year old, they should qualify for that favorable tax treatment—if and when it comes.

And remember this on losses. No matter what happens with future capital gains treatment, if you really took a bath in 1987 there is no limit to how long you can carry forward those losses. You can apply \$3,000 of those losses against ordinary income every year until they are exhausted. Or, when you do have capital gains, you can apply them then.

Note: If you are an options trader, the Tax Court has issued a long-awaited ruling that could prove a bonanza for traders who want to establish year-end losses. The court ruled that options are not subject to the same wash-sale rules as are stocks and securities. Check with your accountant for details.—W.G.F.

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Sotheby's Art Market Trends

Index sectors	Sept 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years	
									% change	average annual % change
Old Master paintings	403	403	349	303	217	nil	+15.5	+33.0	+85.7	+13.
19th-century European paintings	361	361	303	250	197	nil	+19.1	+44.4	+83.2	+12.
Impressionist & Post-impressionist art	1,091	1,091	661	432	298	nil	+65.1	+152.5	+266.1	+29.
Modern paintings (1900-1950)	1,090	1,090	666	429	275	nil	+63.7	+154.1	+296.4	+31.
Contemporary art (1945 onward)	728	728	597	542	383	nil	+21.9	+34.3	+90.1	+13.
American paintings (1800-pre-WWII)	958	958	789	687	501	nil	+21.4	+39.4	+91.2	+13.
Continental ceramics	407	407	320	290	272	nil	+27.2	+40.3	+49.6	+8.
Chinese ceramics	684	684	550	486	445	nil	+24.4	+40.7	+53.7	+9.
English silver	388	388	349	338	219	nil	+11.2	+14.8	+77.2	+12.
Continental silver	260	260	201	192	156	nil	+29.4	+35.4	+66.7	+10.
American furniture	469	469	452	380	239	nil	+3.8	+23.4	+96.2	+14.
French & Continental furniture	355	355	319	285	249	nil	+11.3	+24.6	+39.8	+6.
English furniture	784	784	594	447	309	nil	+32.0	+75.4	+153.7	+20.
Aggregate index*	660	660	475	369	275	nil	+38.9	+78.9	+140.0	+19.

Basis 1975 = 100 (\$).

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*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Market highlights

September, traditionally a light month for the auction houses, saw a notable auction in London—the sale of more than 2,000 lots belonging to British rock star Elton John. John's collection, built over 20 years and ranging from pop memorabilia to fine jewelry, sold for \$8.2 million.

The event had a number of elements in common with last season's two main "celebrity sales," the collections of Andy Warhol and Liberace. The Elton John collection contained many of his stage costumes and other entertainment memorabilia, as well as a number of items that stood as fine works of art in their own right. Among the fine works of art, "Hommage à Alphonse Allais" by René Magritte sold to a Belgian collector for \$119,680, more than \$34,000 above the top estimate. Prices for the star's eyeglasses—the hallmark of his personal style—and his elaborate stage costumes fetched many times expected. For example, a pair of illustrated eyeglasses estimated to sell for \$1,350 to \$2,000 brought \$10,000.

By the end of the month,

again in London, the British Rail Pension Fund disposed of a further part of its artwork collection, selling its books and manuscripts. The fund's managers had acquired art specifically for investment purposes in the latter half of the 1970s, when inflation was at an alltime high and investment managers were looking to "alter native investments" to provide a real return. A couple of years ago the fund changed policy direction under new management and decided to sell parts of the collection. The results of these sales thus far have produced price rises that have kept pace with or exceeded inflation rates.

Selling for a total of \$4.4 million, the book and manuscript collection exceeded pre-auction price expectations. Among the highlights, a 16th-century Italian atlas (the Doria Atlas) went for \$420,750, and John Gould's "Birds of Australia" sold for \$317,900. The British Library was the successful buyer, at \$224,000, of the third volume of "Juvenilia," a Jane Austen manuscript containing two of her earliest novels. Since the manuscript is considered an important document of Britain's literary heritage, the British were relieved to win the competitive bidding round and retain the manuscript in their country.



Plate from "Birds of Australia"



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Faces

Behind the Figures

Edited by Robert T. Grieves

Gimme a "non"

Brooks Firestone, 52-year-old grandson of the founder of Firestone Tire & Rubber Co., quit the family business in the early Seventies for the life of a gentleman farmer in the Santa Ynez Valley north of Santa Barbara, Calif. With help from his father, Leonard, and Japanese distiller Suntory Ltd., he started the Firestone Vineyard, which today wins awards and is a local tourist attraction. This year the vineyard will ship 82,000 cases of chardonnay, cabernet and other superpremium wines, generating an estimated \$3.5 million in sales.

Now Firestone spies opportunity in a new but related market: nonalcoholic beer. Analysts say the U.S. market for nonalcoholic brew, now mostly imported from Europe, is 10 million cases. Firestone thinks the potential market is much larger. Says he: "It's

boozers and teetotalers, healthy and unhealthy, old and young. At supermarket demos we get everyone from little old ladies to Joe Six-pack."

Firestone and partners Hale Fletcher and Michael Lewis (head of UC Davis' brewing science department) spent more than a year mixing malt and hops to come up with a formula that tastes good and is less than 0.5% alcohol (American beer is a bit less than 4% alcohol by volume). His secret: Brew the stuff as nonalcoholic beer from the start, rather than brewing beer first and then extracting the alcohol.

Firestone Non-Alcoholic Brew went on sale last June (for \$3.50 to \$4.99 a six-pack) and is available mainly on the West Coast. Another attraction: The stuff has two-thirds the calories of so-called light beer.

Ruf. Frishman



Brooks Firestone, of Firestone & Fletcher Brewing Co.

"We get everyone from little old ladies to Joe Six-pack."

Firestone & Fletcher Brewing Co. now shipping 6,000 cases a month about one-quarter of the capacity of its pilot plant. To expand production, Firestone is thinking of spending another \$1 million to build his own brewery or teaming up with a regional brewer.

Big U.S. brewers haven't taken the near beer market seriously—until now. Anheuser-Busch is test-marketing a "non" called LA-X. Firestone strategy? Stress its all-American roots and stick to a "handmade" premium image.—Marc Beauchamp

Snappy Cappy

Donna



Jeep/Eagle's Joseph Cappy
Number one in "the wedge."

Honk your horn for Joseph Cappy. He was president of ill-starred American Motors when Chrysler took it over in August 1987. Cappy, 54, hung on to become Chrysler group vice president of the new Jeep Eagle division and, with Chrysler backing, helped lead Jeep to a 20% sales increase. Jeep is now so hot that Chrysler is investing another \$24 million in the Toledo, Ohio, and Brampton, Ont. Jeep plants to increase capacity by more than 100,000 units.

Cappy has a theory about the business today. He says there's a "wedge" between cars and trucks. This wedge includes Jeeps and all similar "multipurpose vehicles," like minivans. These vehicles aren't quite trucks. And Chrysler, number three in cars and trucks, is number one in Cappy's wedge. "Six out of ten people want minivans and one-third of

people who buy a sports utility vehicle go with Chrysler," he brags. Where Cappy is having a problem is with traditional AMC automobiles like the Eagle Premier, which will sell fewer than 50,000 units this year. His Taurus-size sedan, which cost AMC and Renault around a billion dollars to develop, is built in a new plant outside Toronto. Cappy admits that if Premier sales don't pick up soon, another Chrysler product will be added to the plant, which is operating at only about 35% of capacity. The candidate is Chrysler's red-hot minivan.

Why not give up on cars entirely and just sell Jeeps? Because it turns out that Cappy has a corollary to his edge theory. "The number one car that shares a garage with a Jeep is a Mercedes," he says. All he has to do to be Chrysler's biggest hero—well, maybe second biggest—is sell one of each high-profit car to each of his Jeep buyers.—Steve Kichen



Merry Tuten, of Alaska Seafood Marketing Institute, in Tokyo fish market
"We didn't take the threat of farmed salmon seriously."

Teaching socialists to manage

What's George Soros been doing since his \$2 billion Quantum Fund lost \$800 million in last October's stock crash? Trying to recoup, on the side, setting up a business school in his native Hungary. The International Management Center will open in Budapest next month and offer management and training seminars to between 400

Andy Freeberg



Quantum Fund's George Soros
Each system has its problems."

and 600 university students and managers of Hungarian enterprises. Soros provided about one third of the school's \$1.4 million in capital. Hungarian and Italian investors put in the rest.

Is this a further step in the conversion of Hungary from a socialist economy to a market economy? Soros replies diplomatically: "The American and Hungarian teachers at the center will develop business case studies that fit the socialist conditions in Hungary." He adds: "Each system [capitalism and socialism] has its problems."

Meanwhile, what's been happening to the Quantum Fund after its Oct. 19 shellacking? Soros predicts a gain of around 10% for 1988. Why so low? "We're in an advanced state of cyclical expansion," he says. "The tendency of long-term interest rates is upwards. It's unlikely that the stock market as a whole can make a tremendous amount of headway."—R.T.G.

Swimming upstream

Merry Tuten, executive director of the Juneau-based Alaska Seafood Marketing Institute, is spending more and more of her time in Tokyo these days—trying to sell salmon. That's because the \$1.1 billion (ex-vessel value) Alaskan fishing industry is suddenly facing serious threats to its export markets from salmon cheaply farmed in dozens of countries from

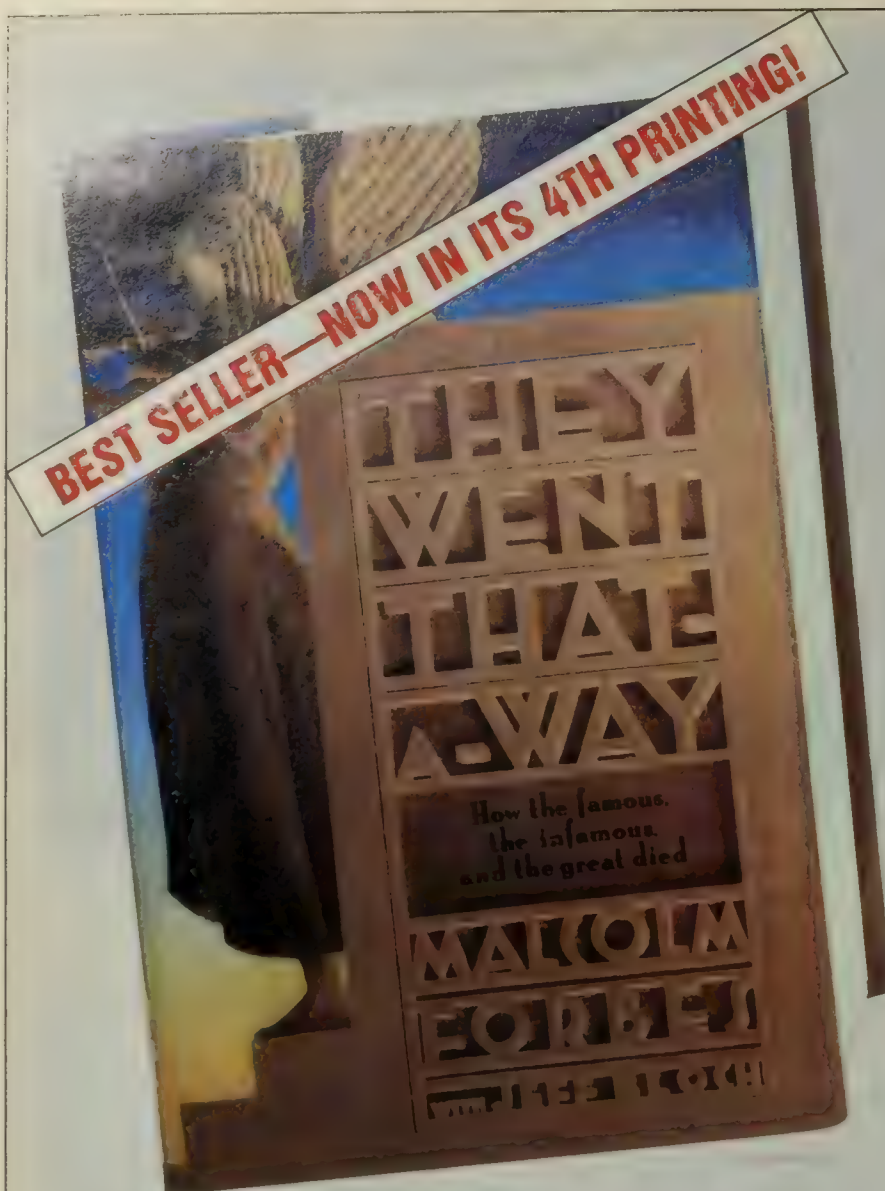
Norway to New Zealand.

Since 1980, farm-grown salmon has grabbed more than 10% of the world salmon market, and it could have a 50% share by the year 2000. That's bad news for Alaska, which ships its best and highest-priced fish abroad. Imported farmed salmon is even invading the U.S. domestic market, which takes half of the annual Alaskan catch by tonnage. "We simply didn't take the threat of farmed salmon seriously enough," concedes Tuten.

For Alaska the stakes are highest in Japan, which purchased more than \$500 million worth of Alaskan salmon (at wholesale) last year. The Japanese, Tuten observes, "eat a lot of fish, prefer high-quality product and can pay for it."

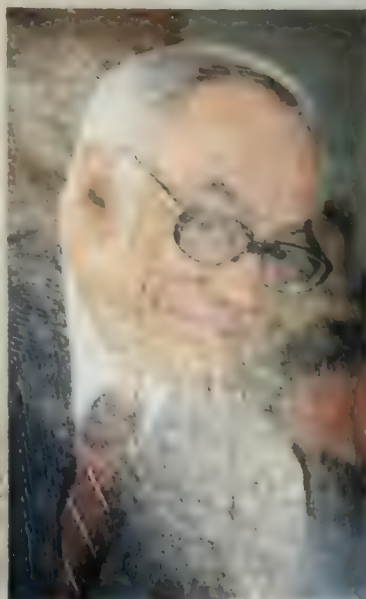
How is she countering the farmed-fish threat? By marketing Alaska salmon as a "natural" product. "The farmed fish get no exercise," she says. "Alaskan salmon is stronger and more flavorful." Tuten, a 34-year-old native of Long Beach, Calif., works with importers to offer Japanese housewives a taste of salmon in supermarkets. Restaurants run promotions, and Alaskan salmon is touted on posters in Tokyo subway stations.

So why not farm fish in Alaska? Because, Tuten says, the powerful fishing lobby there has pushed through the state legislature a two-year moratorium on the farming of any fin fish.—M.B.



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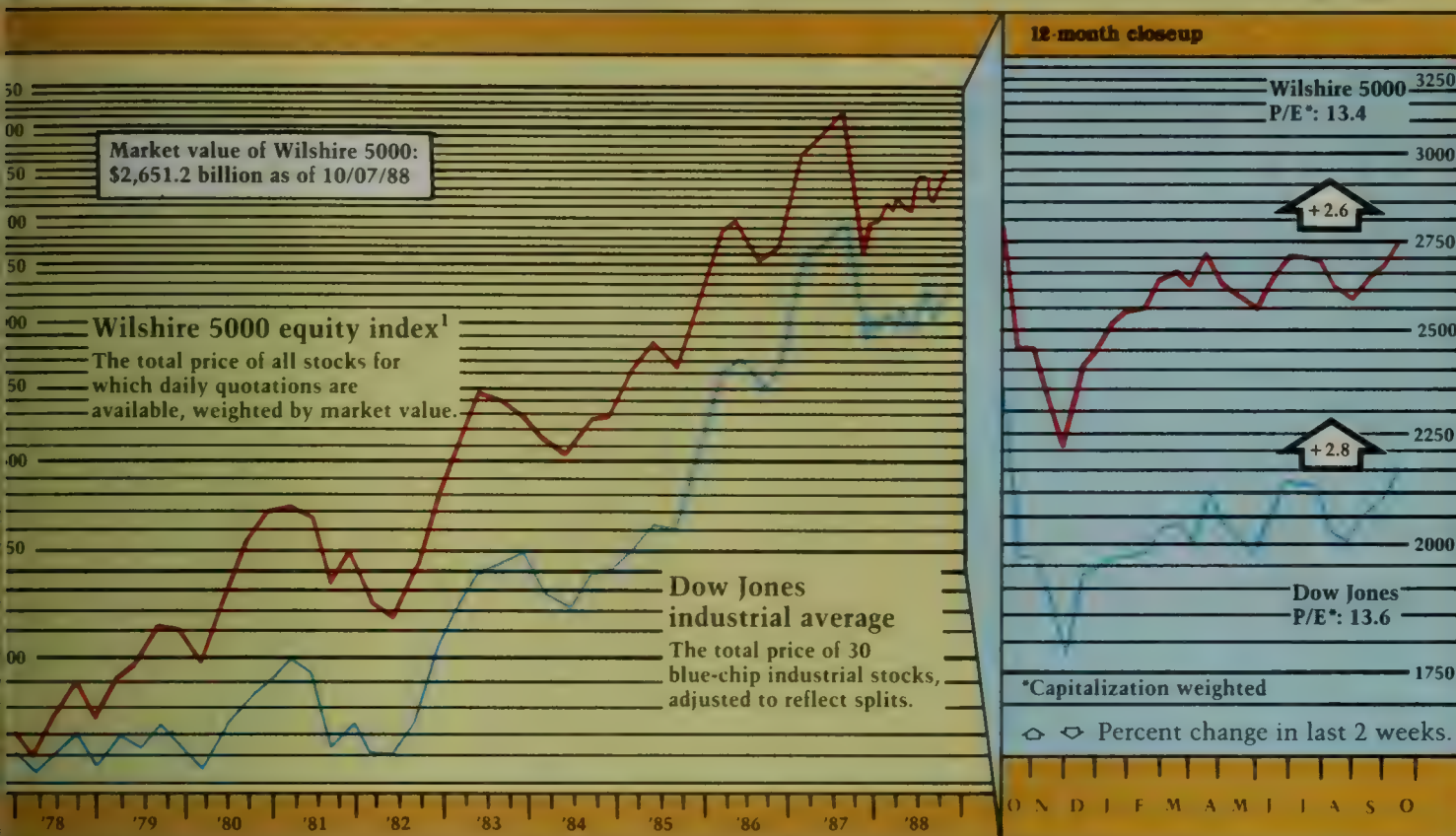
John Jacob Astor IV	Ivan the Terrible
Attila the Hun	Jesse Woodson James
Sir Francis Bacon	Thomas Jefferson and John Adams
P.T. Barnum	Casey Jones
Busby Berkeley	Janis Joplin
Blackbeard the Pirate	Princess Grace (Kelly) of Monaco
Alfred S. Bloomingdale	Bruce Lee
Margaret Bourke-White	Vivien Leigh
Diamond Jim Brady	Carole Lombard
Lenny Bruce	Huey Long
Lord Byron	Jayne Mansfield
Caligula	Senator Joseph McCarthy
Al Capone	Glenn Miller
Catherine the Great	Sal Mineo
Claudius	Margaret Mitchell
Cleopatra	Marilyn Monroe
Montgomery Clift	Jim Morrison
Christopher Columbus	Wolfgang Amadeus Mozart
Adelle Davis	Audie Murphy
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Isadora Duncan	Lieutenant General George S. Patton
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King Edward V	Jackson Pollock
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George Gershwin	Bessie Smith
Euell Gibbons	Dylan Thomas
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The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



reams of lower interest rates. In the two weeks ended Oct. 7, the Dow industrials moved up almost 60 points, or 3%, in a rally that favored big stocks. The NYSE was up 2%, the Amex 1.6% and the Nasdaq only 0.2%. The Dow, which closed at 2150, is once again at the upper end of its postcrash trading range.

Encouraging words are being heard. Thus, for example, John C. Brooks, a managing director of Atlanta-based securities firm Marshall & Co., thinks that the market is

headed upward and will break through 2700 sometime in 1989. Brooks points to four sectors that have performed very well since June: brokers, S&Ls, insurers and utilities. He reads this as an expectation of lower interest rates.

If interest rates do come down, investors may be willing to pay a higher multiple for stocks. The Dow is now trading at 13.6 times latest 12-month earnings, while the Wilshire P/E is 13.4. One year ago, prior to meltdown Monday, the respective multiples were 21.3 and 20.2.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ²	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
last 4 weeks	3.7	4.1	3.9	4.0	2.1	1.1
last 52 weeks	-10.5	-11.7	-13.4	-10.2	-12.4	-12.0

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ³		P/E multiple		Dividend yield		Growth profile ⁴		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over \$35	under \$4
last 4 weeks	4.2	0.8	1.1	1.0	0.3	2.8	1.6	3.3	0.9	2.5	3.8	-0.4
last 52 weeks	-5.9	16.9	18.2	7.5	-5.9	2.9	4.7	22.4	17.3	4.1	-2.8	11.9

Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. ²Based on sales. ³Stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. ⁴A quantitative evaluation of a stock's worth image, determined by Wilshire Associates.

te: All data for periods ending 10/07/88. Prepared by Wilshire Associates, Santa Monica, Calif.

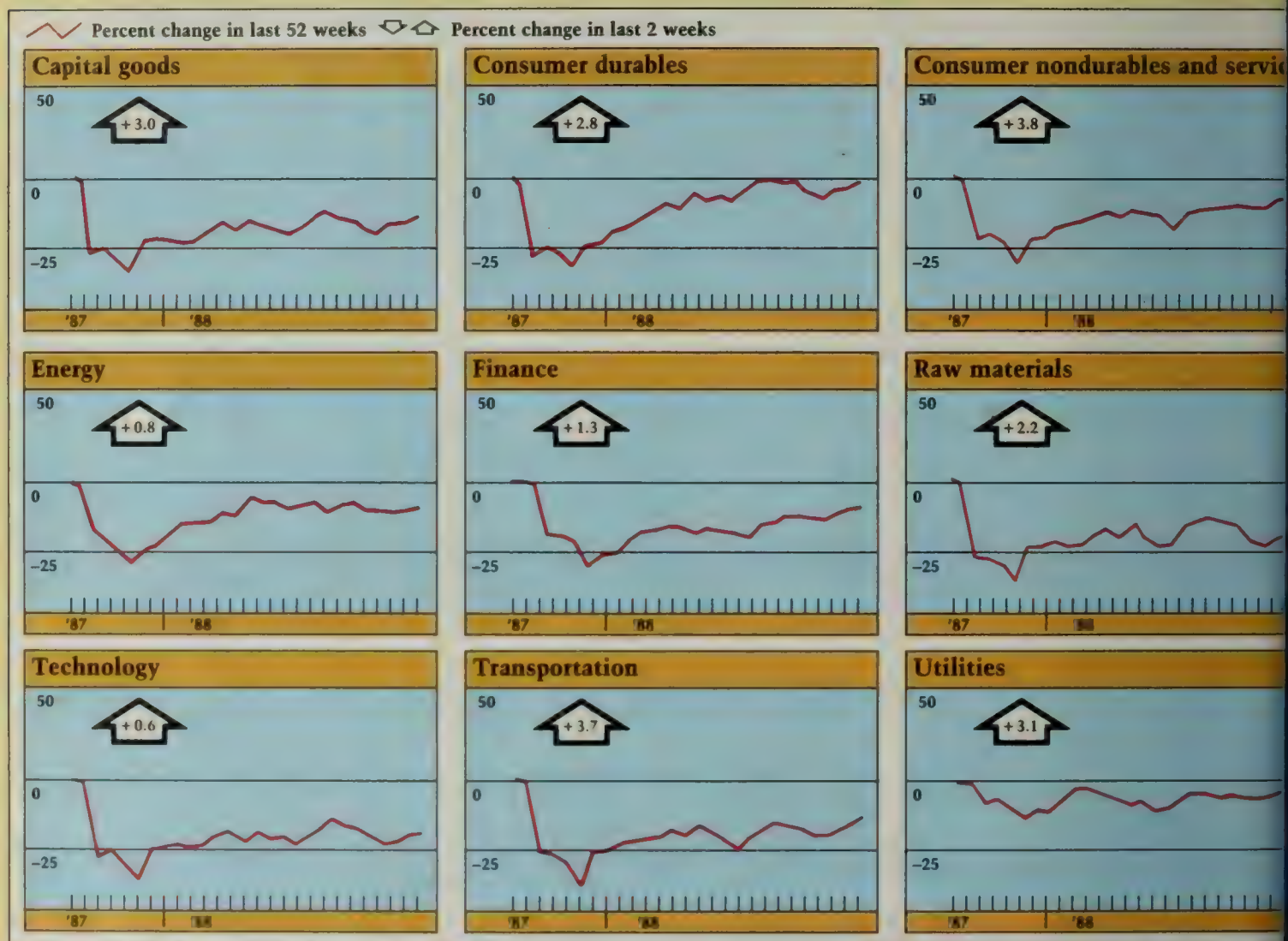
Steven Ramos

Where the Action Is

Problems in Lotusland. On Oct. 7, when the market rallied 42 points, Lotus Development dropped 3, to 16³/₄, after announcing additional delays in the upgrade for its main software program, 1-2-3. The drop in Lotus contributed to the weak showing for the technology sector. Lotus has lost about \$1 billion in market value over the past 12 months as its capitalization declined to \$750 million. Yet

the bears are looking for more trouble. Between Aug and September the short interest on Lotus doubled about 1 million shares. This was the second-largest crease in short interest on the Nasdaq.

Terence Quinn, a software analyst at Drexel Burnha expects Lotus to earn only \$1.50 this year, which gives stock an estimated 1988 earnings multiple of 11.2.



What the Analysts Think

In reverse. Transportation stocks show the sharpest cuts in 1988 earnings estimates. Hit hardest was Kansas City Southern, which saw forecasts reduced 19 cents, to \$2.62.

In addition, this company is challenging a \$600 million judgment awarded against it by a South Dakota judge. Burlington Northern and CSX also had lower forecasts

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
Next 12 months	\$3.20	12.4
1988 estimates	3.59	11.0
1989 estimates	3.96	10.0

Rank based on change in estimate	Sector	Estimated 1988 EPS	P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	\$4.70	11.1	0.59%	0.75%
2	Raw materials	3.23	9.7	0.21	0.60
3	Capital goods	2.63	14.3	0.08	0.17
4	Finance	3.42	8.9	0.07	-0.50
5	Utilities	2.39	10.4	0.05	-0.10
6	Energy	3.21	12.0	-0.22	-1.06
7	Consumer nondurables	2.45	14.2	-0.26	-0.32
8	Technology	2.92	11.6	-0.47	-0.75
9	Transportation	2.26	12.4	-2.00	-2.91

Earnings per share are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data are as of 10/07/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.



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LA REVISTA LATINOAMERICANA

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The image shows the cover of the Chinese edition of BusinessWeek magazine. The top left corner has a small logo with the text '世界商業雜誌 國際商業與管理 的化驗公司'. The top center reads 'BusinessWeek China'. The main title is '國際商業與管理' in large Chinese characters, with 'INTERNATIONAL BUSINESS AND MANAGEMENT' in English below it. A prominent headline in the center asks '放 松 管 制 行之有效吗?' (Relaxing control, is it effective?). Below the text is a black and white photograph of an airplane on a runway, viewed from the front. The bottom right corner of the cover features the McGraw-Hill logo and the copyright notice '© 1988 McGraw-Hill, Inc.'.

For further information contact: Hal Berry 212/512-3867

Capital Markets

MONEY & INVESTMENTS

You are attracted by the high yields bonds currently offer, but you're scared about bond market volatility. Why not try stepped maturity investing?

ALL-PURPOSE GRIND

By Ben Weberman



Timid investors can get a good run for their money without trying to outguess interest rate trends. The trick is to use a stepped maturity technique. You put, say, a tenth of your money in 1989 bonds, a tenth in 1990 bonds, and so on up to ten years out. This leaves you with an overall maturity of about five years. As each crop matures, you reinvest the principal in ten-year bonds, so that your average maturity never changes.

What's the advantage here? There's less market risk than in putting all your money in ten-year bonds and more yield than in putting your money entirely in short-term securities. And by rolling over one-tenth of the portfolio every year, you do a kind of dollar cost averaging on the direction of interest rates.

Stepping maturities will not immunize you against interest rate changes. Nothing will do that, short of a low-yielding portfolio of ultra-short maturities. If rates go up, everything in a stepped maturity portfolio goes down in value, the furthest-out bonds the most.

Let's get specific. Suppose you want a tax-free yield from a stepped portfolio. With A-rated, tax-free

general obligations, you'd wind up with a spread of yields ranging from 5.9% for the one-year issue, to 6.15% for the two-year, 6.4% for the three-year, and so on until the longest bond, whose yield is 7.2%. Overall yield to maturity: 6.6%, but this figure will climb a bit as you roll over 5.9% notes into 7.2% medium-term bonds.

Investors could add 0.2% or so to the yields by using riskier BBB-rated bonds, or move up in quality to AA and sacrifice 0.2% of yield.

If interest rates never change (an admittedly unlikely event), the \$10,000 received from payoff of the 5.9s would be reinvested in ten-year, A-quality bonds paying 7.2%. However, the total return would be close to constant, since the maturity mix of a stepped portfolio remains almost constant over time. That's because a bond that is two years from maturity today will be a one-year maturity a year from today, and so on.

Brian O'Connor, a research vice president at investment managers Roosevelt & Cross in New York City, is a strong advocate of stepped maturity investing. But on the very shortest maturities, O'Connor notes, municipal yields are terrible. On one-year investments you could do better buying Treasuries and paying the taxes. That's why, when O'Connor sets up a stepped maturity portfolio of munis, he starts the ten-year range at the 1991 maturity and goes out to 2000.

Here's one of O'Connor's packages of recommendations; quality range is from Baal to AAA: Puerto Rico 5.7s of 1991; New York City 6.5s of 1992; NYS MedCare Mental Health 7.35s of 1993; NYS Housing

Finance Agency (SUNY) 6.6s of 1994; Triborough Bridge 6.8s of 1995; NYC Muni Water 7.6s of 1996; Municipal Acceptance Corp. series 67, 7s of 1997; NYS Mortgage Agency 7.1s of 1998; Metropolitan Transit 7½s of 1999; and MAC series 67, 7.3s of 2000.

The annual income on this portfolio, which would cost you \$100,440 if you bought \$10,000 par value of each issue, is \$6,907. Notice that the yields do not coincide precisely with the rates mentioned earlier, since the bonds are not all priced exactly at 100 and since qualities vary.

This portfolio would be most suitable for a New York City resident, who has three income taxes to avoid. O'Connor has a different roster of Florida issues for residents of that state. (Florida has no personal income tax, but it does have a portfolio tax from which local bonds are exempt.) The Florida package yields 6.75% to maturity.

Each of the selections was taken from those offered in the Blue List, which is the daily listing of bonds available to dealers. Count on paying a minimum of 0.375% more when you try to buy in small lots from a retail broker.

Which, of course, brings me to the point that stepped maturity investing is not for the very small investor. I'd say you should have at least \$100,000 available and preferably more. With \$100,000 you could pick up ten lots of bonds of \$10,000 each, due in annual installments from one to ten years. With \$50,000, I'd suggest larger steps, spacing maturities every other year.

With less than \$50,000 you should be in a bond mutual fund, not individual bonds. Most bond funds, by the way, already lean in the direction of stepped maturity portfolios. (In their reports they generally tell you what is the average maturity in their portfolio; many of them try to catch swings in the market by shortening average maturities when they are bearish on bonds, lengthening them when they are bullish.)

Bond yields look awfully attractive these days, but that attractiveness is diminished by the fact that the bond market today is almost as volatile as the stock market. Stepped maturity investing is a way to take advantage of the yields while somewhat diminishing the market risks. ■

Ben Weberman is a contributing editor of *FORBES* magazine.

The Contrarian

MONEY & INVESTMENTS

The economy is strong, the stock market is not, which combination spells opportunities for smart and patient investors.

ONE YEAR LATER

By David Dreman



A year has gone by since the worst stock market crash in American history. It was truly frightening, and investment strategists for months after Oct. 19 earnestly warned of a 1929-30 repeat, preparing charts showing the eerie similarities between market behavior in the months following 1929 with that after Oct. 19. They expected a brief rally in early 1988, followed by an awesome drop in prices.

Fortunately, investment strategists, like most generals, are always fighting the last war, and just as consistently losing it. Many gurus were stunned when the market went up this year. What they missed, like generals focusing on past battles, was that 1987 was enormously different from 1930. Back then, the economy was heading into the Great Depression. This year, business is growing, with an improving trade deficit, reasonably stable interest rates and inflation, and strong consumer spending.

The growing economy is responsible for some of the largest earnings gains in decades. S&P 500 earnings were up more than 20% last year

and should increase 25% in 1988, making the two-year total 50% on a compounded basis. The sharp drop in stock prices, together with the dramatic surge in earnings, has lowered the P/E of the market from over 20, in the early autumn of 1987, to 11 or 12 times 1988 estimates, below its long-term norm.

Still dazed by the crash, however, investors have retreated to the sidelines, despite these excellent fundamentals. Bad news, no matter how temporary, sends stock prices tumbling. Good news is ignored.

Investors are, in short, continuing to pay the price for the excesses that led to the crash: portfolio insurance and program trading, sponsored by leading financial futures exchanges, brokerage houses and the academics. The sponsors promised these advanced techniques would bring a new golden age for investors. They did nothing of the kind.

With poetic justice, however, the perpetrators have been punished, too. Some of the big brokerage houses pushed hard for these strategies because of the enormous profits they generated for the brokers' own proprietary accounts as well as large commissions. Since the crash, most brokerage stocks are down about 50% from precrash levels, while commission revenues have dried up.

The Chicago Mercantile Exchange, the leader in bringing a new era of volatility to financial markets (which coincidentally brought in tremendous commissions), has seen its business go down sharply. Some Merc traders have had to sell their gold chains and are moonlighting as taxi drivers or bartenders.

The academics who originated the madcap theories that promised

financial futures would make markets better for everyone are frantically writing papers blaming the crash on everybody but themselves. Never mind: History will find this group's contributions to science in the same league with those made by the alchemists or believers in the Ptolemaic System.

Unfortunately, no major changes have been enacted to prevent a recurrence of the Oct. 19 disaster because of pressures from the above groups, although changes have been recommended by the Brady Commission, the SEC and many responsible investment advisers. Yet such changes are essential to restore investor confidence in our markets.

For value-oriented investors there is, however, a silver lining. For all the market's dullness the underlying trend has been pretty firm. The S&P (adjusted for dividends) was up 13% in the first nine months of this year. That the market is up at all, given the psychological impact of the crash, shows how strong stock fundamentals really are.

Today's markets, like all markets following major periods of trauma provide windows of opportunity usually available every decade or so for value investors. Some stock normally trading at substantial premiums are battered down and have become low-P/E issues because of overreactions to temporarily negative news. Two industries that are prime examples are technology and consumer products. Both are trading at their lowest P/Es relative to the market in 15 years.

In the computer industry I would look at the following companies:

Digital Equipment (89) is down sharply from its high of 200 last year on temporarily disappointing earnings. DEC trades at a P/E of 9.

IBM (115) has turned the corner and will show good earnings growth for several years. IBM trades at a P/E of 13 and yields 3.8%.

In the consumer products area the following stocks look very cheap:

Scott Paper (39) is a rapidly growing consumer paper products company, with a P/E of 10, yield 1.9%.

Unilever NV (56) is another giant consumer products company with an above average growth rate. Unilever trades at a P/E of 11, yields 3.4%.

RJR Nabisco (58) has shown better than 20% earnings growth with almost 50% of net derived from food products. RJR trades at a P/E of 12 and yields 3.8%. ■

David Dreman is managing director of Dreman Value Management Inc., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

Stock Trends

MONEY & INVESTMENTS

Here are two scenarios for stocks and the economy under the next President.

MARKET'S GOT THE "RON'S GONE AND LEFT US" BLUES

By Ann C. Brown



Despite the debates, speeches and commercials, many investors remain underwhelmed by the lack of "presidentiality" displayed by both candidates. This is one reason the market has gone nowhere on low volume ever since the conventions.

Whether you like him or not, Ronald Reagan is a hard actor to follow, presidentially speaking. He braved an assassin's bullet. He conquered cancer. He radiated self-assurance and inspired confidence. He was the nation's number one economic cheerleader, the commander-in-chief of the global chamber of commerce, the supreme chief executive officer. More important, he did most of what he set out to do—and did it with grace and class and gentle good humor.

When investors try to evaluate Mr. Bush versus Mr. Dukakis, they can't help but compare both men with Mr. Reagan. It will take some time, if ever, for the new President to win the hearts and minds of a majority who would, if they could, elect Mr. Reagan to a third term.

When candidates inherit a nation wallowing in peace and prosperity, it is difficult to promise voters

much of any consequence. We are better off today than we were in 1980—most of us. But will we be better off in 1992 than we are today? Here are two scenarios for the economy and the stock market that could come about starting next January.

Strange as it may seem, should Dukakis win, there could be a business-as-usual reaction in the financial markets—at least near term. First of all, the governor will be so occupied with learning how to do his job that he may be inclined not to try to fix what ain't broke. Second, Dukakis has been hammered on by the opposition throughout the campaign as a man certain to raise taxes. In order to prove his accusers wrong and to build a broader power base, I suspect Dukakis would do just about anything and everything to keep from having to resort to revenue-raising measures—at least through the 1990 elections.

If there are no significant new or increased taxes for the next couple of years, chances are the economy will continue the gradual slowdown that has shown up in recent selected government statistics. This could help keep interest rates from rising, unless the Democrats decide to embark on ambitious social welfare programs, which could exacerbate the federal budget deficit. I doubt that this will be an immediate threat because Dukakis does not seem to be a man to be rushed. Furthermore, there is widespread disagreement within his own party concerning priorities and the means by which to accomplish the ends of this still-vague wish list.

While the economy under a Dukakis Administration (as well as a

Bush Administration) could remain recession-free, at least through next year, the stock market could take it slow until investors get the measure of a man whose name they scarcely knew a year ago. His cabinet and other appointees must be scrutinized, early decisions analyzed and first crises dealt with before major foreign and domestic money managers seriously commit their cash reserves. Investor caution could continue through 1989, and the stock market could remain mired within its current narrow range on pity-the-poor-brokers volume.

A Bush presidency, on the other hand, could result in a somewhat livelier stock market—in both directions. Bush has attended President's Prep for the last eight years and gives every indication of wanting to get off to a fast start. The taunt of "Where was George" had to hurt, and Bush would be only too anxious to announce "George is here!"—and move promptly to make his presence felt.

Bush is one of the most credentialed men to seek the office and, should he capture it, could easily become overly involved in the many areas of his expertise, in contrast to his predecessor, who preferred to delegate the day-to-day details and workings to his staff. Bush is impulsive and a greater risk-taker than Dukakis. Under a Bush Administration the highs could be higher and the lows lower, and the stock market could mirror those ups and downs by trading more actively in a wider range. The economy, however, might suffer if Bush should overreact as business weakens and argue too successfully for stimulation when GNP growth ought to be allowed to slip to a lower, more sustainable rate.

When all is said and the voting's done, investors would be wise to look at the composition of Congress. The faces probably will be pretty much the same, and the ideological makeup of the House and Senate could be remarkably similar to what it now is. It is easier to elect a new leader than new legislative leadership, and whether Dukakis or Bush wins, neither will bring with him a strong mandate for abrupt changes in economic policy.

I look for the stock market to rally postelection through inauguration because of one less uncertainty. But consider taking profits if this proves to be the case. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

Newsletter writers should remember that extravagant promises can backfire.

EASY ON THE HYPE

By Mark Hulbert



One of my recent columns focused on the more moderate tone of newsletter advertising since the crash. Maybe I spoke too soon.

"Rated No. 1 for both safety and profits by the independent *Hulbert Financial Digest*," is the oft-repeated claim in advertising for Jay Schabacker's *Switch Fund Advisory*. "Hulbert ranks *Telephone Switch Newsletter* among top performers," shouts advertising for Richard Fabian's newsletter. Both advertising campaigns are misleading.

In recent columns I have criticized Stan Weinstein's *Professional Tape Reader* and Harry Schultz' *International Harry Schultz Letter*, both of which have underperformed the market by huge margins yet have used my name in claiming they are number one. But unlike those of Weinstein and Schultz, the records of both Fabian and Schabacker generally have been quite good, and they both have powerful justification for their investment systems. Since the simple truth does them credit, why do they feel the need to embellish the truth?

This illustrates a general lesson

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest and author of The Second Hulbert Financial Digest Almanac, published by Minerva Books.

about investment advertising. Even though one shouldn't be taken in blindly by an adviser's exaggerated advertising claims, one shouldn't be too tough on those who indulge in a bit of hyperbole, because there exists no particular correlation between an adviser's record and his tendency to exaggerate.

Fabian's newsletter is the most widely followed of those that advise when to switch into and out of mutual funds, with \$100 million and more riding on each of his signals. Part of Fabian's appeal has been the simplicity of his approach, which generates buy and sell signals as the market moves above or below its 39-week moving average.

His approach has not just its simplicity to commend it; academic research also suggests that moving averages can be valuable market-timing tools. In research for his thesis at Portland State University, for example, Norman Fosback (who now is editor of *Market Logic*) found that moving average systems do add value to a buy-and-hold approach. (Fosback stresses, however, that there is nothing magical about a 39-week moving average in particular.)

Fabian's newsletter has been one of the best-performing services of any that the *HFD* follows, currently ranking fifth among all those tracked since mid-1980. For the entire eight years, Fabian's switching model has increased at a compounded annual rate of about 15%.

But rather than be proud of this excellent record, Fabian insists on magnifying it, regularly claiming that his advice comes very close to or exceeds a 20% compounded rate of return. In his current advertising, he goes even further, saying that his

newsletter achieved "an average 53.73% growth per year" over the past 11 years.

How did 20% become 53.73%? Fabian simply blurred the distinction between compounded and un-compounded rates of growth. In none of its 11 years did his system generate as much as a 53.73% profit, even though—by ignoring compounding—it can be made to look as though it did. This, of course, is nothing more than the statistical truth behind compounding, but very misleading nevertheless. By a similar sleight of hand a money market fund could claim that a 7% return achieves an average 22% growth per year over 30 years.

Jay Schabacker has a distinguished investment heritage, since his father was an editor at *FORBES* in the 1930s and his uncle, Robert Edwards, was coauthor with John Magee of *Technical Analysis of Stock Market Trends*, the classic work on the subject. Unlike his relatives, however, and unlike Fabian, Schabacker is not a technician. His investment approach is a combination of fundamental and technical factors.

The most profitable category of advice contained in Schabacker's letter is his timing advice for the "inactive investor." This has outperformed Fabian and all but one of the other timing strategies the *HFD* has tracked since mid-1980.

The truth, therefore, should be quite good enough, thank you. Nevertheless, as quoted above, Schabacker's advertising insists on claiming that I have rated him number one for both safety and profits. I can interpret this claim in any of several ways, and while I am not sure which of them is intended, none currently is true.

Since Fabian and Schabacker have good records, it's worth reporting that both currently are bullish on stocks and bearish on gold. Because Fabian's system is mechanical, furthermore, we know these forecasts will remain intact as long as the Dow holds above the 2000 level and gold shares don't rise by more than about 9%. With Schabacker, however, it's difficult to say what would lead him to change either opinion.

In any case, both these letters are worth listening to. But please, fellows, cut the hype. Extravagant promises have a way of backfiring. In the meantime, we should focus on their records and ignore the exaggerations. ■

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Streetwalker

Edited by Thomas Jaffe

Pillsbury's new doughboys?

If Grand Metropolitan Plc. wins its hostile \$5.2 billion bid for Minneapolis' Pillsbury Co., John Stafford, Pillsbury's former chairman, will be an even richer man. Ousted in February, Stafford, 53, owns around 77,500 Pillsbury shares, many purchased through options exercised at prices far below market. At Grand Met's \$60 offering price, they're worth \$4.65 million—and bidding may escalate. Not that Stafford needs the money. Since March he has been drawing \$74,375 a month, thanks to the company's income continuation plan. He can collect this for 24 months, unless he finds a new job first.

What of Stafford's replacement, Philip Smith, whose minimum annual compensation is \$1 million? When Smith, 54, took over, he was granted 30,000 shares through the company's stock ownership plan. Previously, he'd acquired another 3,000 shares. Market price at the time: less than \$40 a share. At Grand Met's \$60 price tag, his stock would fetch around \$2 million. He's also entitled to shares of restricted stock, which, according to the proxy, he can sell if a change of control occurs that the board has not approved. In other words, if Grand Met wins and ousts Smith, he could pocket even more money.

A final note on Phil Smith. He was president of General Foods when it was acquired by Philip Morris in 1985 (and stayed on to run the GF subsidiary until he jumped ship to Pillsbury). He seems to have a shrewd eye for undervalued food companies.

Honey pot

Speaking of big Minneapolis companies, a recent report by analyst Judith Comeau of Goldman, Sachs describes Honeywell Inc. as a great buy. Comeau has looked at the slew of acquisitions over the last two years in Honeywell's core businesses, and based on those deals, she says the \$7.4 billion (estimated 1988 sales) company is worth \$115 to \$140 a share. Recent NYSE price: just 63.



Management recognizes this disparity. Honeywell has repurchased 9 million shares since 1985, and is authorized to buy 3.5 million more under its present buyback plan. (There are 42.4 million shares outstanding.)

Honeywell's cash flow, says Comeau, is "extraordinary." She estimates it will be \$13.75 a share this year and \$15.15 in 1989. Moreover, she notes that because the company has "more-than-adequate facilities and because residential controls and defense and marine are relatively mature product areas, the need for capital expenditures is relatively modest." She estimates that fixed investments will total less than \$300 million, or 85% of annual depreciation and amortization charges, over the next several years. That means, she says, Honeywell could generate \$60 million to \$200 million of excess cash in 1988 and 1989 before financing activities.

The company is husbanding cash in other ways. In August, for example, it put four defense electronics units on the block that had combined sales of \$430 million in 1987. Comeau puts a conservative price tag of \$350 million on the four.

Comeau thinks 1988 earnings, after a pair of defense writeoffs, will be down 6%, to \$5.40 a share. But she's looking for a 30% gain next year, to \$7 a share. If she's right, this big, solid company is selling at nine times anticipated 1989 earnings, and for less than five times estimated cash flow.

Fairly valued

Still in Minneapolis, there is the continuing saga of retailing giant Dayton Hudson Corp. Dayton, you may remember, was attacked in the summer of 1987 by Washington, D.C.'s well-coiffed Haft family, the raiders who run Dart Group. The Hafts yanked their hostile \$68-a-share bid for Dayton after the market collapsed last October. Postcrash, Dayton's stock plunged below 30, at which point the company instituted a big share-buyback program. (There are 84.6 million NYSE shares.)

Is there any takeover action left? And if not, is the stock, recently recovered to 41¾, a buy on basics?

One of our sources doesn't see much takeover play, although he admits the antitakeover law Minnesota rammed through to protect Dayton and its corporate brethren in the state has yet to be tested. He continues to value the sum of Dayton's parts at \$65 to \$70 a share, but advises not to buy the stock as a buyout speculation.

Nor does our source think the company is worth much more than its current price on near-term fundamentals. He credits Dayton's continuing effort to turn around Mervyn's, the big soft-goods chain it runs in nine western states. Elsewhere, it has acquired 50-odd Gemco stores in California that it has consolidated into its Target discount store division. In 1988 the consensus is that Dayton will earn more than \$3 a share, up from \$2.41 last year; in 1989 estimates range from \$3.50 to \$4 a share. Selling for around 11 times next year's earnings projections, Dayton Hudson, our source concludes, is trading in line with other big retailers and does not rate any particular premium.

Dayton Hudson's turnaround project
Waiting for another bid? Don't.



Service with a smile

Last spring analyst Barry Rothberg of New York's Mabon, Nugent & Co. recommended Best Products, the big catalog showroom chain (FORBES, Apr. 18). With the stock selling for 11¾ at the time, Rothberg contended the company was worth as much as \$25 a share. Update: Best recently agreed to be acquired by Adler & Shaykin, a New York investment firm, for \$27.50 a share.

Rothberg thinks the next to go might be the other biggie in the field, \$2.7 billion (revenues) Service Merchandise Co., Inc. During the summer, as Best rose on the strength of speculation, Nashville-based Service bounced up and down. In September a management group that included Ser

man (his family owns about 9% of the 3.8 million o-t-c shares) said it was considering an LBO offer for the company. For now, management has tabled the idea. But when the Best news broke, Service shot to a 12-month high of 15 $\frac{3}{8}$.

What's Service worth? Based on the price Best is fetching, analyst Rothberg figures as much as \$25 a share. Service owns 44 of its 313 stores and, like Best, is believed to have favorable leaseholds on the balance. He thinks Service will earn more than \$1.50 a share in the current year, and at least \$1.90 a share for 1989. So even on fundamentals, the stock looks good.

Money in the bank

Now that Irving Bank Corp. has agreed to be acquired by Bank of New York, money manager Edward Macheski of Wilton, Conn.-based Macheski Asset Management suggests taking a look at another deal that has been on Bank of New York's back burner since long before it started up with Irving. In 1983 Bank of New York struck a deal to buy Northeast Bancorp, Inc., headquartered in Stamford, Conn. Through its Union Trust Co.—39 of Union's 67 branches are in affluent Fairfield County—\$3.125 billion (assets) Northeast is the largest independent commercial bank in Connecticut.

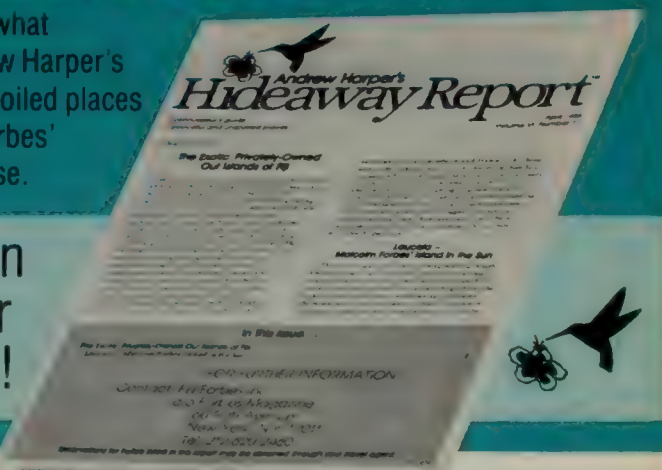
According to the terms of the deal, which were amended in 1986, Bank of New York is to pay 2.5 times Northeast's book value when the merger is consummated. When will this take place? That depends on when Connecticut passes an interstate banking law. Macheski says prospects are good that the state legislature will act during the first quarter of 1989, with the new law set to take effect in 1990. According to Macheski, by the end of next year book value—recently \$35.06 a share—will be over \$40. That would make for a takeover price of \$100 per share, 64% above the recent market price of 61.

Two big caveats: (1) The deal could fall apart, and (2) the stock is thin. Although there are roughly 6 million over-the-counter shares, the Union Trust Co. employees' savings and profit sharing plan owns 10.3%, and much of the rest belongs to others who are patiently waiting for the deal to close. But if you can accumulate even a few shares, says Macheski, they'll be worth the effort. Says he, this one's like money in the bank.

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of November 2, 1918)



Even as victory loomed, FORBES remembered World War I's terrible human cost

What is going to happen to us when the feverish war boom suddenly ends? How many of us are going to lose our jobs? Will the unprecedentedly high wages of today continue? Will governments, both the Allies' and our own, immediately cancel every war contract the moment peace is declared? Even if they do not, there surely cannot fail to be immediate unsettlement in many businesses."



At Life's employee benefits in 1918 included daily dances—without men

Ninety years ago in FORBES

(From the issue of November 1, 1928)

Unquestionably the most important event of the past month, and one of the most important this year, in the realm of aviation is the successful first commercial dirigible crossing of the Atlantic Ocean by the German ship *Graf Zeppelin*. Long in preparation, the flight disappointed no one,

and the very difficulties of weather conditions which it met on its Western crossing added proof of [its] practicality and comparative safety. . . ."

"Always in the past call loans were supplied by bankers. The published figures show that \$2 billion has been pumped into Wall Street by corporate and other nonbank lenders, and it is figured by bankers that more than another half-billion is actually being supplied from outside sources. All this huge sum is callable without any notice. Should anything occur to incite uneasiness among these unregulated, irresponsible lenders, what would happen when they withdrew their funds?"

Fifty years ago

(From the issue of November 1, 1938)

"Rumors of impending peace between CIO, A.F. of L. gain momentum as public resentment against factional quarrels mounts. Expert observers concede that some fire may be beneath smoke, but warn against expectation of overnight untangling. . . ."

"Production of crude petroleum in the U.S. in 1937 amounted to 1.3 million barrels [per day], breaking the previous record of 1.1 million barrels for 1936."

Twenty-five years ago

(From the issue of November 1, 1963)

"No matter how much farm income exceeds the currently booming \$40 billion, equipment sales are unlikely to grow in proportion. The reason: Even though the machines become increasingly complicated and expensive, the consolidation of American agriculture into larger and larger farms has cut down on unit sales of equipment. The result is that horsepower per acre on American farms has remained constant for several years. With it has stagnated the average total dollar volume of the farm equipment industry."

"Although the late Robert S. Kerr gave up active control of Kerr-McGee Oil Industries when he entered politics in 1942, first as governor of Oklahoma, later as a U.S. senator, his interest in the company remained unflagging. 'He would call,' says President Dean McGee, 'whenever he found time.'"

"A typical conversation:

Kerr: 'What are y'all doing?'
McGee: 'Building a drilling rig.'
Kerr: 'Good idea?'
McGee: 'We think so.'
Kerr: 'Build two, build THREE.'"



Kerr-McGee founder Robert S. Kerr, later a U.S. senator from Oklahoma

Ten years ago

(From the issue of October 30, 1978)

"It would be wrong to call Roy Neuberger a professional bear, but, unlike many traders, he has never hesitated to go short. He claims to have made his first big killing shorting Radio Corp. of America in September 1929, when it sold at \$574 a share. . . . He scored again on the short side in the early Seventies with high multiple stocks like Avon, Polaroid and Xerox. Neuberger has made big money on the bull side, too. It is his style to simultaneously be on both sides of the market most of the time."

"The trouble with the mobile home industry is, essentially, that it does not control its own financial destiny but depends on the banks and finance companies. Contrast this with the shell-home market, where Jim Walter Corp., a company largely in building and building materials, currently has the biggest backlog in its history in spite of those same soaring interest rates. The difference is this: Jim Walter has its own mortgage company and can finance every shell home it can sell."

...the cynicism that is
...of success that is penetrating
...id.
GEORGE JEAN NATHAN

All men naturally hate one another. They employ lust as far as possible in the service of the public weal. But this is only a pretence and a false image of love; for at the bottom it is only hate.
BLAISE PASCAL

There is no crime in the cynical American calendar more humiliating than to be a sucker.
MAX LERNER

Only the man who finds everything wrong and expects it to get worse is thought to have a clear brain.
JOHN KENNETH GALBRAITH

The cynic, a parasite of civilization, lives by denying it, for the very reason that he is convinced that it will not fail.
JOSÉ ORTEGA Y GASSET

Watch what people are cynical about, and one can often discover what they lack.
HARRY EMERSON FOSDICK

Cynic, n.: a blackguard whose faulty vision sees things as they are, not as they ought to be.
ALFRED DOUGLAS

The cynic puts all human actions into two classes: openly bad and secretly bad.
HENRY WARD BEECHER

Only what proceeds from emotion or from cynicism is real. All the rest is "talent."
E.M. CIORAN

Thoughts on the Business of Life

The cynic is fond of quoting ironically: "It is more blessed to give than to receive," and of adding that he has no ambitions to enter the blessed class. Of all breathing things the cynic is the most miserable, the most pitiable, the least enviable. The people he laughs at, the people he jeers at, the people at whom he shoots his cheap, little darts are a thousand times better off than he, though his self-worship, his impenetrable conceit prevent him from seeing things as they are. Cynicism is a deadly form of moral astigmatism.
B.C. FORBES

Nothing makes me more pessimistic than the obligation not to be optimistic.
EUGENE IONESCO

Beggars get handouts before philosophers because people have some idea of what it's like to be blind and lame.
DIOGENES OF SINOPE

A pessimist is a man who has been compelled to live with an optimist.
ELBERT HUBBARD

Human nature is not a high thing, but at least it has a high idea of itself.
WALTER BAGEHOT

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Pessimism does win us great happy moments.
MAX BEERBOHM

You want to hate somebody, if you can, just to keep your powers of discrimination bright, and to save yourself from becoming a mere mush of good nature.
CHARLES DUDLEY WARNER

Philanthropy seems to me to have become simply the refuge of people who want to annoy their fellow creatures.
OSCAR WILDE

Cynicism is an unpleasant way of telling the truth.
LILLIAN HELLMAN

Optimism is the content of small men in high places.
F. SCOTT FITZGERALD

To be a prophet it is sufficient to be a pessimist.
ELSA TRIOLET

A Text . . .

For I know that in me (that is, in my flesh) dwelleth no good thing: for to will is present with me; but how to perform that which is good, I find not.
ROMANS 7:18

Sent in by Eric Smithback, La Grange Park, Ill. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

7546#
He is one of those wise philanthropists who, in a time of famine, would vote for nothing but a supply of toothpicks.
DOUGLAS JERROLD

